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Research Article

Government Incentives in the Development and Internationalization of the Real Sector in Turkey: A Theoretical Introduction

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Abstract

In Turkey, the development and internationalization of the real sector are expressed as complementary industrialization strategies defining inward-oriented industrialization as "import substitution" and outward-oriented industrialization as "export-based industrialization". Inward-oriented industrialization period can be conceptually considered the period in which the industrialization process is realized towards the domestic market; the export led industrialism process, on the other hand, can be considered the period in which the industrialization process takes place by integrating into the total circulation of the world industry and markets.

The inward-oriented (domestic market) industrialization period should not be considered a period in which it is isolated from international power and industrialization dynamics. On the contrary, it should be taken into account that this period is shaped by the effects of international real sector as well, especially in Turkey. On the other hand, although the sectors which are effective in import substitution are in different forms, the outward-oriented industrialization process is basically the period in which the development and transformation of the same actors and sectors with financial, commercial, and industrial equipment has been observed since the establishment of the Republic. Although it is considered that both periods contain different policies along with the outward move since the beginning of this process which is the inward-oriented industrialization process, the process corresponds to different phases of industrialization as a whole. For this reason, government incentives in the formation and internationalization processes of the real sector have also altered and transformed.

Keywords: Real Sector, Industrialization, Incentives, Turkey

JEL Codes: F63, O11, O21, O23, O 43

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Araştırma Makalesi

Türkiye'de Reel Sektörün Gelişimi ve Uluslararasılaşmasında Devlet Teşvikleri: Teorik Bir Giriş

Ferimah Yusufi [1]

Öz

Türkiye'de reel sektörün gelişimi ve uluslararasılaşması, birbirini tamamlayan sanayileşme stratejileri olarak, içe yönelik sanayileşme "ithal ikamecilik" ve dışa açık sanayileşme "ihracata dayalı sanayileşme" olarak ifade edilmektedir. İçe yönelik sanayileşme dönemi kavramsal olarak, sanayileşmenin iç piyasaya yönelik gerçekleştiği dönem ve ihracata yönelik sanayileşme ise, reel sektörün uluslararası sanayiye ve piyasalara eklemlenerek gerçekleştiği dönem olarak düşünülebilir.

İçe (iç piyasaya) yönelik sanayileşme dönemi yalnızca uluslararası güç ve sanayileşme dinamiklerinden izole edildiği bir dönem olarak değerlendirilmemeli, tam tersine özellikle Türkiye'de bu dönemin uluslararası reel sektörün de etkileriyle biçimlendiği dikkate alınmalıdır. Dışa açık sanayileşme sürecinde ise temel olarak ithal ikamesinde etkin olan sektörlerin farklı biçimlerde de olsa, Cumhuriyetin kuruluşundan itibaren finansal, ticari ve endüstriyel sermaye donanımına sahip aynı sektörlerin ve aktörlerin gelişim ve dönüşümünün izlendiği dönemdir. Bu sürecin başından yani içe yönelik sanayileşme sürecinden itibaren dışa açılmayla beraber her iki dönemin farklı politikaları içerdiği söylense de aslında süreç bir bütün olarak sanayileşmenin farklı evrelerine tekabül etmektedir. Bu nedenle reel sektörün oluşum ve ululslararasılaşma süreçlerindeki devlet teşvikleri de değişip dönüşmüştür.

Anahtar Kelimeler: Reel Sektör, Sanayileşme, Teşvikler, Türkiye

JEL Kodlar: F63, O11, O21, O23, O 43

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Introduction

The study aims to present the explanation for the development and transformation of the real sector in Turkey through incentives. In the expression of the development of the industrial (productive) investments, we can repeat a generalization that has been made many times before. Government interventions (incentives) have an important role in the process of the creation of the conditions for industrialization. The industrialization process is also the process of formation of "*capital in general*" (Ercan, 2009:12). Participation of the government in the industrialization process through incentives also causes the sectors formed in the industrialization process to enter direct relations with the government. The relationship/interaction between the government and sectors or companies, but especially between companies with objective interests that differ over time, is very important in terms of our subject. However, this is not a static relationship but a relationship that differs depending on the stages reached by the industrialization process. The tendency/demands of investment forms to pass through various stages and to integrate with the world industrial system shall also cause reshaping of their relations and demands with the government. As the demands become evident, significant changes shall begin to occur in the internal architecture of the government and the policies implemented. It is possible to see this change through the changes in incentives.

Many studies have been conducted on investment incentives used in the development of real sector in Turkey.[1] The main qualities and common aspects of other studies, which offer very important clues for this study, are that they were analyzed within the framework of more technical expertise. In this study, investment incentives shall be analyzed based on the structural functioning of the system. In order to carry the analysis to be conducted on the structure and process to the operational/concrete level, the parties of the incentive policies also participated in the analysis we carried out. In this study, the information in the studies and reports on investment incentives (compiling of legislation and numerical data) shall be discussed through the internal dynamics of the social relations set without being fetishized.

In the first part of the study, connections of development theories shall be analyzed within the framework of the formation and internationalization of the real sector and the incentive system in Turkey. In the second part, the effect of international real sector in the conditions of development and internationalization of real sector in Turkey and the internationalization of real sector in Turkey shall be discussed. In the third part, government's provision of the conditions for the formation and internationalization of the productive investments, classified as indirect incentives in the formation of the real sector incentive system, and meeting financial needs shall be explained; and direct incentives for the production process shall be discussed and explained from the past to the present.

1. Development Theories Suggested in the Development and Internationalization Process of the Productive Capital

In this study, we emphasize that the contribution of the government through incentives is important in the development of the real sector and in the internationalization process. We can observe this contribution in the formation of the productive capital, which is the main feature of the proposals of development economists in late industrializing countries such as Turkey. According to this;

[1] For the studies on the incentive system, see: Baruter, M (1973), Mazlum, M., Yücel, İ, Tekeoğlu, M (1990), TÜSİAD (1990), Duran, M. (1998), Dilik, B. and Duran, M (1998), Duran, M. (2003)

> *The dynamics that guide the development of capitalism in late capitalist societies emerge at the stage when real sector accumulation reaches a level that will dominate the whole of economic relations. When we look at the development strategies pointed out by early development economics, we can state that the main emphasis is actually "creating productive capital" (Ercan, Karakaş et al., 2008: 220).*

With the concept of real sector, we refer to the process covering industrial investments and production activities in a market economy and the relative economic actors. We discuss the major temporal objectives of the "development theories or development plans" that shall ensure the formation and internationalization of the real sector in Turkey as follows.

- To create the conditions for industrialization within the total reproduction process,
- Depending on the industrialization process, to provide a basis for the formation of the real sector in the 1960s and the acceleration and internationalization of the real sector development in the 1980s.

Development/industrialization programs do not directly express incentives for the formation of the real sector and often contain technical language. When we clear development programs of the technical language they contain, we can observe how they support real sector formation. For example, Arthur Lewis's (1958) "development" proposals include a planned transition to outward-oriented industrialization. This proposal points to the process of encouraging the formation and development of the real sector through planning which is what we observe in Turkey. As another example, when Albert O. Hirschman's (1958) strategy of unbalanced growth proposal is analyzed, he states that the model is not for commercial and financial sectors but for real sector firms to be linked by cross-sectoral backward and forward links and highlights that what one produces can be used as an input for the other. Considering these *"development"* proposals, it becomes important to analyze whether they have an equivalent in Turkey.

Proposals of the development literature on the formation of the real sector include many concepts such as development, growth, modernization, industrialization, lack of industrialization, planning, intervention, inward-oriented industrialization, outward-oriented industrialization, the creation of economies of scale, and forward-backward links. When the formation process of the real sector is considered, we observe that all these concepts express the mechanisms of the formation and internationalization of the real sector. The differences in the formation and internationalization processes of the real sector are expressed in the development recipes as "*import substitution industrialization*" and "*export led industrialization*" strategies. "*Development strategies*" envisaged to be implemented in the formation and internationalization of the real sector include the framework in which the process shall operate, functions of the government, and detailed measures for the development of the real sector.

The common aspect of the "development strategies" applied for the late industrializing countries is the idea that the countries which have just gained their political dominance after the Second World War cannot provide sufficient industrialization. It has been emphasized that late industrializing countries have structural needs to realize industrialization; and the inevitability of the nation-state to undertake important tasks in this process has also been highlighted.

Shown as example models in "development" studies, the "West", that is to say early industrialized countries, is defined as "modern". The Eastern and/or traditional countries, which are assumed to be opposite or behind the "modernity", have implemented "*development formulas*" upon the necessity of going through the stages they have passed to reach the level of development of the "modern" countries. From this point of view, Türkay evaluates the work of development theorists as follows.

> Modernization finds its clearest expression within the framework of development economics in the works of W.W.Rostow. On the other hand, economists such as Nurkse, Hirschman or Lewis are evaluated within the scope of this theory because their philosophical-intellectual tradition and their developmental-interventionist understanding overlap with the modernization-intervention propositions of the modernization theory (Türkay, 1994: 115).

In his study on "*Industrialization of Underdeveloped Countries*", based on economic dualities, A. Lewis focused on the difference of production relations in traditional/agricultural (LCC) and modern/industrialized (ECC) societies. In the "underdevelopment" literature, based on the idea that both structures exist, studies have been conducted on the structural changes and transformations similar to the characteristics of industrialized societies and economies with the assumption that the economy cannot grow or develop in countries where the share of the traditional structure is predominant in the economy. For this reason, industrialization strategies for industrial investments have been implemented in late industrializing countries with the thought that "industrialization" is the main determinant of the formation and development of real sector. Paul Rosenstein Rodan (1958: 246) also stated that the "development [of late industrializing countries shall be possible with their] industrialization", that is, with the development of their real sector.

The model proposed by A. Lewis (1958) is to provide resources to industries where there is real sector for the transition to the industrial production in late industrializing countries. Lewis expresses the points in late industrializing countries as low real income per capita, saving not at a level to create industrialization, the share of agriculture in national income being higher than other sectors, insufficiently developed financial markets and services, high population, and inequality in income distribution etc. (Lewis, 1958: 402-403). According to A. Lewis, inward-oriented industrialization (import substitution), which is the first stage in ensuring economic development, means production for the domestic market. A. Lewis states that "it cannot be stated that the development of a country can only be achieved by producing for its own market, but it can be considered the first stage in bringing the produced goods and services to the level that can be exported". According to A. Hirschman (1958: 120), "*in the industrialization process, imports can stimulate development and enable strong producers to take part in the market*." A. Lewis explains the transition process from inward-oriented industrialization to outward-oriented industrialization as follows.

> An "underdeveloped" country may import the necessary inputs to produce the goods and services it previously imported within itself. Import substitution does not limit the manufacturing industry and other industrial sectors, on the contrary, it can expand it. In underdeveloped countries, exports first start with agricultural products and then it may spread to the manufacturing sector and other industrial sectors. The purpose of import substitution is to limit the final goods and services that will come to the country from abroad and to initiate growth at home, but as the economy develops and reaches a certain maturity stage, it frees up foreign trade channels with the promotion of exports (Lewis, 1968: 40-41, 48).

The realization of A. Lewis's suggestions is possible within a planned structure. According to Lewis, a planned development strategy can be used individually or collectively in areas such as determining the terms of trade, increasing capital intensity, providing regional balance, and solving the unemployment problem, and regulating income distribution. Lewis emphasized the importance of determining at what level and how public expenditures and revenues such as utilization of natural resources, infrastructure investments, public health and education investments, savings and external financing shall be used in the implementation of these strategies (Lewis, 1968: 7-12). According to A. Lewis, the prepared "development plans" must meet the following conditions:

- To be able to analyze the current economic conditions,
- Should establish the framework of institutions that can carry out the economic activities to be implemented,
- Should ensure that government expenditures are determined from the beginning,
- The government should be able to identify major industries and set targets for the private sector,
- All plans should include projections on the economy's macroeconomic policy (Lewis, 1968: 23).

The above-mentioned statements of A. Lewis on economic development are the conditions that shall form the infrastructure and mechanisms of the incentive system we see in the reality of Turkey. Lewis's planned development proposals coincide with the development plans implemented in Turkey since the 1960s (especially with the content of the first plan). The plans implemented by the State Planning Organization in Turkey provided the development of real sector that had begun to emerge in those years.

According to Türkel Minibaş (1992), although the strategies determined for "development" differ in countries at the beginning of the industrialization process, the general tendency is expressed as insufficient industrialization. Minibaş (1992: 16) emphasizes that policies that shall ensure industrialization can be realized with the support of the government or in cooperation with the government since "*the level of production and productivity in the country is low, consumption is higher than production, and the savings cannot reach the level to meet the investments due to the low national income*".

One of the solutions that can be used against the lack of industrialization in development plans is external financing. Gerald. M. Meier (1958: 61) and Ragnar Nurkse (1958: 256-263) state that in order to achieve "development", there is a need for resources to realize productive investments and they suggest that these resources and the labor force in agriculture can be shifted to areas where real sector operates, and that financial resources can be created with foreign aid and loans.

Among the views on import policies in the formation of real sector in the process of inward-oriented industrialization, C. Kindleberger states that only the exchange rate adjustment shall not be sufficient when determining the import policy, and that if the inputs to be used in production cannot be produced within the country, the importation of these goods should be allowed (Kindleberger, C., Bruce, H.,1993: 295).

One of the features of the inward-oriented industrialization process is to stimulate domestic demand. In development theories, with the assumption that production will increase with the transition to "industrial" production, it is foreseen that money shall be needed to sell these products, money demand shall be increased by spreading the use of money in regions with subsistence economy and domestic demand shall be met by increasing money supply. A. Lewis states that "*an increase in money supply, which can be limited to 1% of national income, can be implemented in developing countries*" (Lewis, 1968: 217). This assumption allows the printing of money to fully meet the increase in production.

According to R. Rodan (1958: 249-250), to create sectors in the formation of real sector, "*it has a great importance in this process and causes external economies"*. Social fixed capital investments create investment opportunities in other sectors as well. R.Rodan emphasized the necessity of planning against such problems considering that such investments cannot be established below a certain size and that they shall cause excess capacity in the "underdeveloped" countries in the first place. Emphasizing the necessity of creating external economies, R. Rodan argued that large-scale investments in only one sector would prevent the growth of other sectors; and therefore, by creating externalities, a mechanism in which the products of other sectors are sold should be supported (mentioned in Meier, 1995 p.213-215 from R.Rodan 1943).

According to the statement of A. Hirschman, "*the uneven development created by the imbalance between sectors can create sudden leaps in the sector, and it also includes various risks.*" In order to realize this leap, the government creates external economies; investments made for sectors that shall come to the fore can create an increase in production and demand in other sectors thanks to the expansion in these sectors. In his work in 1958, A. Hirschman argued that for "*underdeveloped" countries to reach the level of "developed" countries, there must be the existence of forward and backward links between sectors, along with externalities with complementary effects*" (Hirschman, 1958: 98-104). A. Hirschman explains *forward and backward links* as follows;

> An industry's forward link occurs when new industries using the outputs of that industry emerge. Backward links occur when an industry has an increasing effect on investments in industries that produce the inputs it uses (Cited from Hirschman, 1970: 98-116 by Türkay 1995: 156).

The concept of connection in A. Hirschman's "import substitution" can be developed as follows: "*If the forward or backward link is sampled with a dynamic approach, in the consumption link, primary product producers generate income by importing consumer goods within the country instead of importing their industrial or agricultural products. Similarly, the state can make import substitution preferable by creating direct or indirect financial links on exports.*" For example, it may impose high taxes on export revenues or make various arrangements for the development of import dependent exports. When it comes to the export of the products belonging to traditional sectors, these products are diversified within the framework of "export-oriented growth" and an environment in which economic activities can accelerate is created. The thing that should be kept in mind at this point is the possibility that all these regulations may occur thanks to the interaction between the state and the social structure rather than economic factors (Meier,G. and Seers, D., 1985: 98).

According to J.F.Toye, in addition to the financial instruments of the state, exchange rate adjustments in monetary policy are an important tool for development. For example, overvalued exchange rate is a situation that affects importers positively but creates a disadvantage for exporters. If we expand this expression a little more: if the country's currency is more valuable than the foreign currency, manufacturing by importing inputs creates a reducing effect on the costs of real sector. In terms of exports, it is assumed that the demand for goods in foreign markets shall decrease because the prices of goods produced in the country shall remain expensive compared to foreign markets (Toye, 1993: 119-120). Exchange rate adjustments are adjusted in accordance with the stage of the industrialization process.

It is suggested to create conditions in which foreign investments, international real sectors, can also benefit from the incentives given in the formation and internationalization processes of real sector. It is mentioned in the Law on the Promotion of Foreign Capital Investment[2] introduced in 1954 during the inward-oriented industrialization process in Turkey, in the Legal Decision on the Promotion of Foreign Capital Investment introduced in 1980 during the outward-oriented industrialization process, and in the Declaration on the Foreign Capital Investment Framework Decision released in 1986, 1992, 1995, and 2000 that foreign investors can benefit from the incentives granted to domestic investors[3].

International real sector may operate in other countries for purposes such as increasing its industrialization and creating advantages. When this situation is considered from the point of view of domestic real sector in Turkey, it is observed that international real sector accelerates and develops the formation of domestic real sector. Real sector representatives/organizations in Turkey have demanded the promotion of foreign capital since its formation.[4]

As one of the development theorists who advocate outward-oriented industrialization, according to R. Rodan, "*industrialization*" should not be inward-oriented industrialization but should be "outward-oriented industrialization" in which the world economy shall also be positively affected. According to R. Rodan, "*the development of a state structure that shall enable the simultaneous planning of many complementary industries becomes a factor triggering the process of "industrialization-capitalization*" (1958: 252-253).

Suggestions for the implementation of the incentive system especially in favor of exporting sectors in the process of open industrialization are expressed by C. Kindleberger (1993). Kindleberger considers it necessary for the government to undertake regulatory tasks such as price and cost regulation, externalities and the creation of economies of scale in order to encourage productive investments in the development and internationalization process of the real sector. According to C. Kindleberger, "*if the planned economic projects have a large share compared to the general level of the economy, economies of scale are created and thus, it becomes possible to reduce the costs of large projects*" (Kindleberger and Bruce,1993: 282). We can see investment incentives reducing production costs of the real sector in Turkey as of the planned period. In the production process, especially for companies producing based on scale (large volume, that is, over a certain amount of investment), around 25% benefit can be achieved on the costs of production tools, labor force and energy costs used in production.

C. Kindleberger emphasizes the importance of cross-sectoral connections and states that "*it is possible to use what one industry produces as an input for another industry, but the development process of such projects is also very complex*" (Kindleberger and Bruce,1993: 295).

"Development plans" mentioned above are the elements making up the incentive system we see in Turkey. In the first five-year development plan implemented as of 1963, the formation of the production conditions of the real sector and the realization and internationalization of its formation after 1980 have been enabled.

[2] Foreign Capital Incentive Law, Official Gazette Law-Decision No/Date/Number: 6224 / 23.01.1954 / 8615

[3]

	Official Gazette Title	**No**	**Date**	**Number (Repeated)**
1986	Foreign Capital Investment Framework Decision	86/10353	13.03.1986	19046
1992	Foreign Capital Investment Framework Decision	92/2789	20.03.1992	21177
1995	Foreign Capital Investment Framework Decision	95/6990	23.07.1995	22352
2000	Circular on the Implementation of the F. Cap. Frame. Decision	2000/1	25.12.2000	24271

[4] See, TÜSİAD (1976, 1990, 1998); TTOSOTBB (1976, 1978, 1983) TOBB (2004)

When the plans implemented after the establishment of the State Planning Organization are analyzed, in the First Five-Year Development Plan (1963-1967), the public sector provided intermediate and investment import substitution with the aim of substituting consumer goods. The private sector concentrated on the production of durable consumer goods in the Second and Third Five-Year Development Plans (1968-1978). Since the Fourth Five-Year Development Plan (1979-1983), measures and incentives have been included in the export of industrial goods (Karluk, 1995: 82).

Considering how “successful - effective” the development plans implemented in Turkey since the 1960s are, it has “reached its goal”, especially in terms of overcoming a threshold in the industrialization process. Since the 2000s, real sector has been internationalized and has started to have a share in world markets.

2. Development and Internationalization of the Real Sector in Turkey

Since the incentive policies in Turkey change over time in accordance with the development process and needs of the industry, the incentive policies of the 1960s and the incentive policies of the 1980s shall be different. While the basic need for the formation of real sector in Turkey in the 1960s was financial markets, the need for real sector prepared for internationalization in the 1980s has now turned into financial sector in the form of foreign currency. In this process, incentive policies were developed on the axis of commercial sector to obtain foreign exchange. After the development of commercial sector from the 1980s, the financial profits created by the development of financial sector in the 1990s constituted a source for productive investments. Real sector changed the direction of its production in this process and provided the transition to areas with high added value. In the 2000s, real sector, which has reached the necessary equipment, has been integrated into the international system.

As real sector develops in the formation and internationalization of real sector, we have discussed within the framework of the investment incentive system, its relations with the state and its demands shall also differ depending on the industrialization conditions.

In the study, the internationalization process of real sector in Turkey shall be analyzed in two dimensions. The first one is its effects on the development of the domestic real sector with the internationalization of the international real sector and the second one is the internationalization of the real sector in Turkey. The entry of international real sector into Turkey has accelerated the internationalization of domestic real sector. The internationalization process in the development of real sector in Turkey started with the policies implemented since the 1980s and accelerated since the mid-1990s.

2.1. Conditions of Development for the Real Sector and the Effects of International Real Sector

The accelerated expansion of industrialization on a world scale after the Second World War accelerated the interaction of the industrialized countries with the industrializing countries. International division of labor has developed with the effects of countries’ unique differences in relations such as trade, direct investments, and capital export. In this period, with the categorization of the countries at different levels of the industrialization process as “Developed” or “Underdeveloped”, the dimensions of the relations between these countries began to form at a level that would meet the needs of the industrialization process. The interaction and transformation of the newly industrialized countries and the early industrialized countries also transformed the functions of the state.

According to Beth A. Simmons (1999), the internationalization of the real sector, the integration of capital markets of different countries with each other especially since the Second World War has occurred before and faster than the integration of real sector in this sense. When the development of capital markets since the 1970s is examined, such a rapid development has not been observed in any economic field. In countries experiencing this rapid and deep-rooted development of capital markets, the labor and local capital of those countries, which cannot move, have brought along economic consequences that shall erode the national monetary and fiscal policies implemented by their national institutions (Simmons, 1999: 36-69).

After the development of capital markets, the influence of money sector in the formation of international financial markets and its ability to move rapidly thanks to the standardization brought by the Bretton Woods System accelerated the spatial expansion of other forms of capital.

In one of his studies on the internationalization of real sector among OECD countries, B.A. Simmons emphasizes that foreign direct investments were the area in which international capital movements took place the most during the Bretton Woods period. B.A. Simmons explained the internationalization of real sector chronologically as follows;

> In the 1960s, direct capital investment was taking place from every OECD country in Belgium, Canada, and the Netherlands. In the same period and in the 1970s, American multinational companies began to invest mainly in Europe. In the 1980s, this situation reversed and created a current account deficit in the United States. Since the 1980s, almost every European country has become an exporter of Foreign Direct Investment. Since the 1990s, some regulations were made in these countries, and the restrictions on all direct investments abroad were abolished while incoming foreign direct investments encountered only sectoral limitations (Simmons, 1999: 47-50).

According to Simmons, liberalization movements in capital markets in OECD countries started with the United States in 1974, but other states also tried to liberalize their own markets under the pressure of competition. Canada and the Netherlands reduced their capital controls in the same year as the United States, and Germany and Switzerland did the same in 1979; in 1979, they went into regulation in the transactions regulating the value of money; the UK liberalized only the exchange rate control over capital movements in 1977. Later in 1979, it liberalized all transactions related to the exchange rate. In the 1970s, Japan began to liberalize control, and in 1980 it liberalized all foreign transactions. From the early days of the European Community, France had begun to abolish capital control in financial transactions within the single market approach, and in 1990 it was completely liberalized. While Italy did not attempt to abolish capital control until 1987, it completed liberalization in 1992 (Simmons, 1999: 41).

According to Murray (1971: 100-101), firms' own characteristics and the degree to which they benefit from the functions of the state are effective for the internationalization of real sector. Factors affecting the expansion and internationalization of international real sector;

- The degree of centralization of production, (while production takes place where raw materials are available, foreign markets are used only for the sale of final goods and high export rates are achieved.)
- The level of development of the international firm, (it is the regional and structural expansion of the activities of the companies. Especially the companies producing durable consumer goods can expand their production and sales networks through the representative offices they open in foreign countries.)

- The form of international flow, (it is that firms prefer the international mobility of information and personnel to the movement of goods. This is especially true in-service sectors and agency activities of money and real sector.)
- The degree of dependence on the state (it is that the companies need more help and support from the state depending on their activities. State-dependent development is generally observed in late industrializing countries, in companies producing for the local market, and in companies using imported raw materials in their production.).

The internationalization of production is made possible by the internationalization of commercial and financial sectors. The historical process behind the internationalization and expansion of real sector at the global level was experienced in the 19th century when industrial companies, which comprehended the necessity of industrialization, began to develop different forms of capital within their own structure. By merging with financial companies, large banks, and companies in the form of commercial sector, or by making investments in these areas with their own savings, large industrial companies have turned into large holdings incorporating different sectors. The tendency of holdngs to productive investments in late industrializing countries is one of the important factors affecting the establishment of free market system in these countries (Bina and Yaghmanian, 1991 p.112-113).

The outflow of sectors with different functions such as financial, commercial, and real sector beyond national borders has led to an intensification of inter-sector relations in international markets. In short, the internationalization of production is related to the internationalization of financial sector and the internationalization of commercial sector through the circulation of goods and services. (Palloix, 1973: 68).

2.2. Internationalization of the Real Sector in Turkey

To understand the industrial development process in industrializing countries such as Turkey, it is necessary to analyze the historical development of production goods and consumption goods and their significance in the economic structure (Ercan, Karakaş et al., 2008:218).

In order to cope with the competition in the international system and to overcome the crises, the production processes, technological equipment and the structure of production have to change continuously in accordance with the market conditions. Considering the goods and services production process in an industrialized economy, it is observed that the goods and services produced and therefore the structure of production have changed. This is because the properties of commodities also differ at different stages of the development of real sector. Real sector expands from the production of non-durable consumer goods to durable consumer goods, to intermediate and industrial goods. In this process, real sector increases its investment ability with the industrialization it has acquired depending on the development stage and can produce commodities that require different structures and technologies.

The main reason for the internationalization of the real sector and transformation of societies is not only the movement of internationalization, that is the sphere of circulation, but also the "dialectical relationship between production and circulation". Previously (early) industrialized countries are influential in the transformation of late industrializing countries due to the production goods they produce. For this reason, this interaction between the early industrialized and late industrializing countries cannot be explained as "*only due to external dynamics or internal dynamics*". As a late industrializing country, Turkey's inclusion in the industrialization process was made possible by "*interacting with the dynamics of industrialization started to operate on a world scale*" (Ercan, Karakaş et al., 2008: 219).

While late industrializing countries are articulated with world-scale industrialization with the production of agricultural products and consumer goods in the first place, many of them cannot produce production goods due to the inadequacy of capital equipment. For the development of real sector from agricultural products to the production of industrial products, real sector must have the necessary capital equipment in the form of money. This process has been experienced in a similar way in Turkey, after the transition to the outward-oriented industrialization process, a structure that can now produce Section I goods has been formed since the late 1990s and 2000s (Ercan, Karakaş et al., 2008: 223). Import substitution or export led industrialization policies, which are included in the strategies implemented for the "industrialization" of countries, are implemented. These two processes, which seem to be separate and independent from each other, appear as stages of each other in the internationalization of the real sector. For this reason, with the expression of M. Türkay, "*distinctions such as import substitution industrialization and export led industrialization cause difficulties in evaluating the past and present when they are not filled in, and seem like an artificial contrast*" (Türkay, 2006: 32). To fill in these concepts, it is necessary to analyze how the processes experienced affect the development of real sector. If the "*import substitution and export led industrialization*" processes complement each other, the incentive policies covered by the "*industrial policies*" implemented in these processes shall also be shaped in accordance with the developmental stages of the real sector.

The technology used by real sector in the production process is possible by increasing the quality/technology of the means of production and requires a great cost in itself. Although an important part of the incentive policies applied in the development process of real sector consists of taxes, there are incentives reaching high rates for the supply of production tools. Thus, the incentive system can be used to increase the profit and competitiveness of the means of production used by real sector with higher technology. The importance of using advanced technology is especially important in the production of Section I Goods. Section II goods, which are mainly produced in the domestic industrialization process, remain limited in creating a competitive advantage in terms of international companies, and it becomes a structural necessity to specialize in Section I goods and to produce these goods within the country (Ercan, Karakaş et al., 2008: 224).

After the explanations given above, in the following sub-titles of the study, it shall be attempted to provide the internationalization process of the real sector in Turkey in periods.

2.2.1. 1960- 1980: Formation Period of the Real sector

We can take the formation years of real sector, which started from the 1960s, as the period between 1960-1971 (Ercan and Tuna, 2006: 153). In these formation years, we observe that among the functions of the state, the infrastructure and intermediate production needed to encourage productive investments are emphasized. Ercan and Tuna explain this situation as follows: "*the focus of the state on the production of intermediate goods is not a spontaneous choice, but as a result of the struggles related to the accumulation needs of real sector*" (2006: 160). Although the 1970s included the measures to enable the transition from the inward-oriented industrialization process to the outward-oriented industrialization process, the form taken by the state also changed in this process (Ercan and Tuna, 2006: 161). In this process, large-scale capital with productive investments "*understood the necessity of opening to foreign* *countries*" towards the 1970s. With the expression of Ercan and Tuna (2006), the need for the industry to turn to exports was met in the Second Five-Year Development Plan, and the plan included "*a radical change in the structure of exports and a rapid increase in exports of industrial products in order to bring foreign exchange revenues to the predicted levels*" (Cited by Ercan and Tuna, 2006: 161 from DPT, 1967: 119). However, since a certain amount of industrialization shall be needed to export industrial products, the period of 1960-1980 can be considered the process of realizing the industrialization providing internationalization based on the domestic market, internally.

With the effect of the development plans implemented in this period, the share of real sector in investment goods in the manufacturing industry increased from 8.57% in 1963 to 30.76% in 1971 (Tuna, 2006 p.140). *It is observed that the annual growth rate of the manufacturing industry was realized as 8.7 and 6.2 percent respectively in the 1960-69 and 1970-79 periods. While the share of consumer goods, which was 50.5 percent in large manufacturing in the 1960-69 period, became 39.7 percent in 1970-79, intermediate goods increased from 35.4 percent to 42.1 percent, and investment goods increased from 14 percent to 18.2. This development reveals a significant structural change in the manufacturing industry. Again, the share of the private sector in the total manufacturing industry, which was 44.7 percent in the first period, increased to 55 percent in the second period, and the proprietary structural change occurred mostly in investment goods* (DPT, 2000).

In the process of inward-oriented industrialization, the fact that the internal market has a certain limit, and the absence of foreign currency limits the possibilities of large-scale production. In this process, since real sector is still in its formation process and protected by the state, its competitiveness in foreign markets is low. The export structure, which cannot generate foreign exchange income, "*remains limited to traditional export products*" instead of industrial goods "*and as an industrialization dependent on imports in terms of intermediate and investment goods, they become dependent on the constant flow of foreign resources*" (Gülalp, 1993: 36).

When the inward-oriented industrialization process is evaluated within the framework of direct incentives, the state transferred significant resources to real sector, and the manufacturing industry received the highest share of incentives with 82.4% in the 1968-1975 period. In terms of sectors receiving incentives, "*consumer goods industries became the sub-section receiving the most incentives within the manufacturing industry, and the share of investment goods industries in total incentives remained at 17.3 percent*" (Cited by Ercan, Karakaş et al., 2008: 235 from TMMOB, 2007: 59).

Production of durable consumer goods is the area in which the real sector is most effective in the inward-oriented industrialization process. Foreign-dependent nature of the inputs used in the production of durable consumer goods "*has increased the dependence on capital in the form of foreign exchange and a bottleneck has been encountered in the domestic realization of the surplus-value obtained from the produced commodities*" (Ercan, Karakaş et al., 2008: 236). The military coup and the January 24 Decisions played a decisive role in the implementation of policies aimed at overcoming the emerging crisis and breaking the organized power of the working class at that time, that is to say, "in this new stage reached by the class/sectoral dynamics of industrialization in Turkey" (Ercan, 2004).

2.2.2. Years between 1980 – 2000: Development and Internationalization of the Real sector

In Turkey, the contribution of the state to the real sector with the incentive system and tax policies since the planned period gained momentum with the "export led industrialization" strategies after the 1980s, and the functions and policies of the state have changed in a way that allows outward-oriented industrialization. Oğuz Oyan (2001) expresses the change in economic policies after 1980 as follows:

> *While Turkey was preparing for the Fourth Five-Year Development Plan (1978-1982) in 1977, it aimed to transition from consumer goods to production goods-oriented phase in industrialization. The financing requirement of a new leap in industrialization was at the level of 3-4 billion dollars. IMF/WB circles opposed this plan and its financing.*
>
> *On January 24, 1980, Demirel-Özal duo, a move was made to receive the support of foreign financial institutions. Instead of the model that would take Turkey further in industrialization, the model of incorporation into the world economy through trade was adopted.*
>
> *One of the reasons why foreign powers preferred to open up more to foreign trade was to quickly resolve Turkey's balance of payments crisis and to increase the country's ability to pay foreign debt by increasing export revenues (Oyan, 2001).*

Oyan emphasized that in the process of outward-oriented industrialization, the domestic demand was reduced and with the formation of the conditions that would enable sectors to compete in foreign markets due to incentives (Oyan, 2001).

In the post-1980 period when the state came to the fore as the regulatory power in Turkey, while the sector representatives criticized the state for not providing enough support, "*…in oppositional analyzes, the state is criticized for either not showing the necessary intervention in distribution relations or not providing the necessary equipment for real sector*." In fact, in the domestic industrialization process, the state enabled it to be effective in the development of real sector through legal, economic, and political arrangements with foreign or international real sector partnerships and license agreements (Ercan, 2002: 38–59). In the period from 1980 until today, "*efforts to be effective in the total circulation of progressing capital on a world scale has led to the existence of a process that includes different stages*" (Ercan, 2006: 402).

The change in the production structure after 1980 caused a transformation in the sectoral dynamics. One of the major reasons for this change is the change in "*the relations between labor in the production process and more importantly in the relations between capitals in order to meet*" the capital need in the form of foreign currency which is the most important structural reason for the transition to outward-oriented industrialization. While the first movement of the transition to the outward-oriented industrialization process was "*the policies aimed at encouraging exports to gain capital in the form of foreign currency*", the second important movement was "*the process of internalizing the direct international monetary movements*" that would be experienced in the following years. "*With the 2001 crisis, industrialization strategies producing qualified added value started to come to the fore*" (Ercan, Karakaş et al., 2008: 236).

In the post-1980 transformation, "*implementations aimed at providing more qualified intermediate and capital goods input to real sector (through import or domestic production)* *were put on the agenda*". By increasing the profitability with the transition to the outward-oriented industrialization process, "*international competition, which is basically determined by the producers of advanced industrialized countries*" has been taken as the standard. Thus, the internationalization of the real sector has been contributed through practices such as "*export incentives, tax policies, wage policies, the financial system as a resource for productive investments etc.*". Thus, with infrastructure investments since the 1980s, "*the real sector has concentrated on basic export sectors such as non-durable and durable consumer goods and vehicles*". This sectoral change has led to the development of sub-sectors having links to exporting sectors (Ercan, Karakaş et al., 2008: 238).

3. Shaping of the Real Sector Incentive System

To understand the benefits of the state's position, functions, and practices within the incentive system to real sector, the incentive system should be discussed with more concrete information. We can find this information in the work of James Robin Murray and James O'Connor who deal with the more concrete functions of the state.

In oppositional analyzes, the concepts of actors of market and industrialization are generally discussed with high levels of abstraction such that actual processes are ignored. However, for these concepts to be filled in, these concepts must be approached, and it must be expressed how they concretize at the level of social relations. Studies on incentives are also abstracted and carried to a more conceptual level or turned into something very technical.

In his work "*Internationalization of Capital and the Nation State*" of 1971, Robin Murray reveals us which functions of the state he discusses in its concrete functioning. We shall mainly benefit from Murray's analysis to make this work, which we developed within the framework of the incentive system, more operational. With the development of the real sector, the expansion of commodity production from simple to complex or from the production of consumer goods to production goods is possible by activating the dynamics and various mechanisms inherent in the market system. Considering the limitation of financial sector especially in late industrializing countries, various incentives are demanded depending on the differentiation of the produced commodities over time. In this sense, the state intervenes to ensure industrialization (Ercan, 2002: 30-31). The state determines and implements policies in accordance with the needs of industrialization by intervening in basic variables such as price, wage, interest, exchange rate and import, export, and input costs.

In our study, the incentive system allowing the development of real sector has been categorized differently from other studies. For this reason, the functions of the state pointed out by R. Murray shall embody our theoretical framework in this sense.

Based on the argument of R. Murray (1971), it is observed that the needs of real sector can be met thanks to the intervention of the state. State intervention can be grounded in the provision of economic and social infrastructure within national borders and arrangements allowing the internationalization of real sector. For example, the needs of real sector for industrialization can be met through regulations such as the reorganization of the credit system and tax policies within the framework of incentives, and the limitation of labor costs.

The state's incentives supporting the investments and export during the process of the development of the real sector and internationalization are discussed in the following titles.

The State Provides the Conditions for the Formation and Internationalization of the Real Sector – Indirect Incentives:

Meeting the capital need in the form of financial sector in the formation of the real sector and meeting the capital need in the form of foreign exchange in the internationalization of the real sector, financing resources (domestic and foreign debts, tax system), infrastructure investments in public expenditures, promoting real sector by SOEs and industrial development investments, formation of demand and wages, relations with international institutions and the structure of foreign trade policy, relations with foreign capital, development of qualified labor force,

Direct Incentives for the Production Process:

a) Process Before the Production Starts: Measures for the realization of productive investments (support and incentives to meet the need for capital, cost-reducing incentives for the supply of labor power and means of production)

b) Process of Production: Incentives provided during production (energy support)

c) End of Production Process: Incentives after production (intervention in the circulation area of the produced commodities, pricing, policies for the demand structure, taxation and other practices to increase the profit of the firm)

3.1. The State Provides the Conditions for the Formation and Internationalization of the Real sector, Indirect Incentives

R. Murray argues that the economic functions of the state do not have to be performed by a single authority or institution to meet the needs of the individual firms or sector representative, and even these functions are not necessarily performed by governments alone. Economic functions of the state cover all public domains and these functions can be used by national governments and their international bodies to meet the demands of sector representative (1971: 88).

James O'Connor (1973) categorizes government expenditures in his study on the creation and use of public resources, which are among the economic functions of the state, and states that social capital investments and social capital expenditures or consumption can be used to create benefits for industrialization.

Meeting the Need for Money and Especially Money in Foreign Currency in the Formation of the Real sector: When the industrialization does not reach a sufficient level for the formation of real sector, the state can add capital to the real sector in accordance with the content of the development strategies implemented. The adjustment of monetary policies in providing capital and of exchange rate parities especially in imports to support productive investments under the control of the state gains importance.

Foreign currency is one of the most important needs arising in the internationalization of real sector. According to Murray, one of the most important criteria for internationalization is economic liberalization. Thus, capital inflows in the form of foreign currency can be provided to the country from abroad. In the process of internationalization, making the country's currency convertible accelerates integration with international markets. In addition, various external grants and aids can be used as capital.

The government creates its financing resources with tax revenues, non-tax revenues and other revenue items included in the budget. Taxes are one of the most important items in the creation of the budget resource. According to J. O’Connor, the financing of the outward-oriented industrialization process is created by the regulation of the tax system, domestic and foreign debts, the portion of the profits of SOEs and other public institutions transferred to the treasury (1973: 179-180).

R. Murray states that the state can intervene in the economy as the taxation authority (1971: 93). Due to this feature, the tax system is an effective intervention tool because it enables the creation of public resources, is used as an incentive tool, and has the power to create and suppress demand.

According to J. O'Connor, the state can use tax rates or tax structure as a tool of fiscal policy for economic stability and growth. From the 1960s and early 1970s, the rates and structure of taxes changed in favor of industrialization for investment expenditures. Since then, tax policies have been completely reorganized to expand firm and industry profits and increase private economic activity. Thus, taxation of the income or wealth of the private companies became theoretically impracticable (1973: 205-506).

Another example of its contribution to industrialization through the tax system is customs duties. For example, in late industrializing countries, it is observed that customs taxes are given priority at the beginning of the industrialization process (Mussgrave and Mussgrave, 1989 and Meier, 1995). One of the main reasons for this is to increase and mature the industrialization in the economy. The state tries to create all these services with income from taxes, money printing, sales of goods and services, borrowing, wages, and income from international aid.

Real Sector Incentives by the Infrastructure Investments, SOEs and Industrial Development Investments in Public Expenditures: The state can meet the needs of low-income citizens by providing transfer expenditures and some goods and services free of charge or below the market cost, in order to eliminate inequalities in national security, infrastructure investments, transportation, education, establishment of social facilities, education and income distribution in general public expenditures and it can provide economic stability by taking measures against cyclical fluctuations in the market economy (Mussgrave and Mussgrave, 1989:164-185).

The state can use infrastructure investments and its own enterprises for the development of real sector. Accordingly, physical capital investment consists of all kinds of transportation facilities and roads, electricity, gas, water, construction, sewerage system and industrial development projects. These investments are infrastructure investments and investment incentives for investments made in areas where the private sector cannot make a profit and its technical and capital equipment is insufficient. Regional development investments are the creation of transportation opportunities connecting industrial zones to be established with regional planning and metropolitan areas. Since these investments shall be used for the goods and services that real sector shall produce, they have a cost-reducing effect. Such investments are also very profitable for the private sector in terms of undertaking public projects such as tenders and build-operate-transfer (O’Connor, 1973, 101-111; Palloix, 1975: 78).

Formation of the Demand, Wages: R. Murray states that in addition to the functions of the state, it also contributes to the formation of industrialization with the following economic interventions. These interventions are;

- To balance the demand, the state purchases in large quantities with long-term agreements from the private sector,
- Policies increasing and suppressing domestic demand depending on the conditions of the inward-oriented or outward-oriented industrialization process, for example, increasing wages to stimulate domestic demand in the inward-oriented

industrialization process, lowering wage levels to suppress domestic demand in outward-oriented process, low wages also increase the competitiveness of capital in the international market (Murray,1971: 93).

Tuna (2006: 132) states that wages can also be used as a demand component to constitute the internal market in the inward-oriented industrialization process in Turkey.

Relations with International Institutions and the Structure of Foreign Trade Policy: Leo Panitch (2001) states that the state has played an active role in this process by entering the globalization process beyond internationalization since the 1990s[5]; that compared to the past, the burden of the state has increased in terms of responsibilities ensuring the functioning of the new order; and that while the state itself is internationalizing and executing national economic policies, its role at the international level has increased (Panitch, Gowan, et al., 2001: 128-129).

According to R. Murray (1971), the internationalization of sectors not only expands the scope of the international division of labor but also increases the interdependence between other forms of investments. The contribution of the state to internationalization is to carry its economic and political activities to the international arena. The contribution of the state to the internationalization of the sectors and companies is possible by fulfilling the following elements:

- The state makes various agreements with foreign states and ensures mutual investment guarantees, international policy making, protection of property through various contracts and military agreements,
- To implement international free trade and standardization to ensure the international division of labor (free trade zones, tariffs, common markets, monetary unions),
- Mutual arrangements with international institutions (IMF, OECD, BIS),
- Providing raw materials needed by the sectors (technological collaborations, energy agreements),
- It is provided by the exploitation of international resources (Murray, 1971, 98-99)

Foreign Capital Relations: Foreign capital can be used in the formation and internationalization stages of real sector in a way to ensure industrialization. According to the requirements of the industrialization process, foreign capital may be excluded to protect the real sector. With the encouragement of foreign capital, partnership agreements can be made with local capital. These partnerships may lead to the production of more qualified commodities and facilitate entry to foreign markets (Palloix, 1973: 83-84).

[5] There are discussions on the concepts of internationalization and globalization. While internationalization and globalization are used in the same meaning in some studies, different meanings are attributed to these concepts in others. As the source, see: Satlıgan, N (2003). Satlıgan (2003: 29-30) defines the concept of globalization as "*all forms of capital reaching a higher level of internationalization*".

Real sector can put pressure on their own states through its organizations-representatives to compete with international firms. Thus, it can be ensured that agreements between states for foreign capital investments are made (Murray, 1971: 100-101).

Developing Qualified Labor Force: According to J.O'Connor (1973), the state can provide the development of qualified labor force with human capital investment. Sustainability of industrialization is possible with new products, new production processes and transition to new technology. Therefore, research and development services are of great importance for companies and there is a need for qualified labor force to carry out these services. The state contributes to the formation of qualified labor force, which is costly for companies, with social investment expenditures. To do that, management and training systems are established at all levels, and training opportunities are created for internal and external research and development services.

3.2. Direct Incentives for the Production Process

The state's indirect incentives and supports, monetary and financial policies, and intervention in the economy are not enough to contribute to development and industrialization. For this reason, with the government incentive system, it provides incentives and support for the investments of real sector in a way that directly interferes with the production process.

Process Before the Production Starts:

<u>The Need for Finance:</u> The state can provide financial funds allocation in the form of grants, various funds, loans with favorable interest rates, and foreign currency to provide the capital necessary for the real sector to produce on the basis of sector and firm (Murray, 1971: 88-92).

<u>Supply of Labor Power and Its Costs:</u> Murray explains the state's intervention in the labor force primarily with the formation of the labor force and the training of the labor force. In order to reduce the costs of real sector, the state regulates working conditions in a way to increase job security, limits working hours, regulates minimum wage and equal wages for female labor force, establishes social security system and unemployment insurance, and can even undertake such costs (Murray, 1971: 88-92).

<u>Supply and Costs of Production Tools:</u> In the process before the production is started, the state can provide some of the means of production for free, or it can provide incentives and supports in terms of tax burden or payment terms of some of them. Murray states that the state can have a reducing effect on production costs with incentives such as providing production inputs and raw materials, providing land, especially energy and communication investments, preparing economic infrastructure, providing processed raw materials (Iron-Steel Sector, Electricity Sector, Paper-Glass Sectors) (1971: 88-92).

Process of Production: According to Murray (1971: 88-92), the state can provide technology and energy support among the incentives provided during production. Supports such as cheap pricing, discount on invoice or ease of payment are provided in accordance with the type of energy to be used in production.

End of Production Process: It covers the incentives and supports given after the production takes place.

Circulation of Goods and Services with Exchange Value: At the end of the production process, incentive mechanisms are effective for the pricing of commodities with value of use. Characteristics of the sector in which the real sector is belong to, the level of competition between companies, the division of labor and the effect of SOEs on pricing, creates an incentive effect. In addition, functions of the state such as the regulation of the conditions of sale, consumer protection system, regulation of trade laws etc. (Murray, 1971: 88-93) can also be evaluated within the incentive system.

Tax and Other Practices for Increasing the Profit of the Firm: There are regulations for corporate income so that the produced goods and services can be sold with exchange value and the value created in the hands of real sector can be used in productive investments. These incentives mainly consist of investment incentives, corporate tax and withholding tax exemptions. In addition to these incentives, various supports such as ensuring the protection of sectors and companies that are in particularly difficult situations are also provided (Murray, 1971: 93).

3.3. Turkey's Past and Current Investment Incentive System

The formation and development of the investment incentive system is shaped in line with the goals and objectives of the development plans[6]. Therefore, development plans form the basic framework for understanding how the system is built and works.

Looking at the historical development of the investment incentive system in Turkey, it has been determined how the investment incentive system will be arranged in the first five-year development plan with the establishment of the State Planning Organization. E.g., tax and credit policies and incentives to increase private sector savings, mobilization of private savings and incentives for foreign capital (First Five-Year Development Plan (1963-1967), 1963: 60-62) It is stated how measures will be taken to prevent inter-regional development differences in the long run (First Five-Year Development Plan (1963-1967), 1963: 471). Apart from these measures, tax reductions were granted to investments to underdeveloped regions, investments were encouraged to flow to regions that have development opportunities but have not been able to use these opportunities, and industrial zones aimed to have established in centers where such

[6]

Five Year Development Plans	Official Gazette Date	Number (Repeated)
First Five-Year Development Plan (1963-1967)	3.12.1962	11272
Second Five-Year Development Plan (1968-1972)	21.08.1967	12679
Third Five-Year Development Plan (1973-1977)	27.11.1972	14374
Fourth Five-Year Development Plan (1979-1983)	12.12.1978	16478M.
Fifth Five-Year Development Plan (1985-1989)	23.07.1984	18467
Sixth Five-Year Development Plan (1990-1994)	6.07.1989	2021M.
Seventh Five-Year Development Plan (1996-2000)	25.07.1995	22354M.
Eighth Five-Year Development Plan (2001-2005)	5.07.2000	24100M.
Ninth Five-Year Development Plan (2007- 2013)	1.07.2006	26215M.
Tenth Five-Year Development Plan (2014-2018)	6.07.2013	28699
The Eleventh Five-Year Development Plan (2019-2023)	23.07.2019	30840M.

opportunities are abundant. The state gave priority to the necessary infrastructure investments in these regions. (First Five-Year Development Plan (1963-1967), 1963:494)

In 1967, the first law of the incentive system still in force, Law on the Principles of Implementation of the Development Plan - Law No. 933 entered into force. In the Third Five-Year Development Plan, Sector and Sub-Sector Main (Master) Plans and Priority Regions in Development studies were started to be formed.

In the 4th five-year development plan, priority sectors were selected among the investments in the manufacturing industry to increase the self-sufficiency and power of the national economy. Priorities in investments in industries producing consumer goods were oriented towards exports, while investment priorities in industries producing intermediate goods were oriented towards the evaluation of natural resources. Improvements to be made in industries producing investment goods are of high priority (Fourth Five-Year Development Plan (1979-1983), 1979: 275).

The development of the real sector in Turkey has been encouraged not only in certain regions but also in regions with limited economic and social opportunities. For this purpose, regional planning started in the First Five-Year Development Plan (1963-1967). As the economically and socially backward regions, it is aimed to conduct research primarily in Eastern and Southeastern Anatolia. In the next plans, the arrangements for regional differences continued. In the fifth plan, Eastern and Southeastern Anatolia Regions were defined as Priority Regions for Development, and the industries to be planned were determined. For this purpose, it is aimed to ensure that the investments to be brought to the relevant regions and the infrastructure investments that will support these investments are planned together. In these regions, it is aimed to encourage small-scale and labor-intensive industrial projects as well as large-scale investments (Fifth Five-Year Development Plan (1985-1989): 163-164).

Cities were classified according to their economic structure for regional development, priorities and additional supports were given to investments in low-income cities below the national average.

Development of Priority Region/Province Scope in Development by Years.

- As of 1968, 22 cities determined; Adıyaman, Ağrı, Artvin, Bingöl, Bitlis, Diyarbakır, Elazığ, Erzincan, Erzurum, Gaziantep,Gümüşhane, Hakkari, Kars, Malatya, K.Maraş,Mardin, Muş, Siirt, Sivas,Tunceli, Şanlıurfa, Van.
- As of 1998 50 cities determined; Adıyaman, Ağrı, Aksaray, Amasya, Ardahan, Artvin, Bartın, Batman, Bayburt, Bingöl, Bitlis, Çanakkale (Bozcaada and Gökçeada), Çankırı, Çorum, Diyarbakır, Elazığ, Erzincan, Erzurum, Giresun, Gümüşhane, Hakkari, Iğdır, Kahramanmaraş, Karabük, Karaman, Kars, Kastamonu, Kırıkkale, Kırşehir, Kilis, Malatya, Mardin, Muş, Nevşehir, Niğde, Ordu, Osmaniye, Rize, Samsun, Siirt, Sinop, Sivas, Şanlıurfa, Şirnak, Tokat, Trabzon, Tunceli, Van, Yozgat, Zonguldak (Duran, M., 1998, s.97)
- As of 2021, 44 priority cities for development are defined as 4th, 5th, and 6th regions.

  4.Region; Afyonkarahisar, Aksaray, Amasya, Artvin, Bartın, Çorum, Elâzığ, Erzincan, Hatay, Kastamonu, Kırşehir, Malatya, Nevşehir, Sivas.

  5. Region; Bayburt, Çankırı, Erzurum, Giresun, Gümüşhane, Kahramanmaraş, Kilis, Niğde, Ordu, Osmaniye, Sinop, Tokat, Tunceli, Yozgat.

  6. Region; Adıyaman, Ağrı, Ardahan, Batman, Bingöl, Bitlis, Diyarbakır, Hakkâri, Iğdır, Kars, Mardin, Muş, Siirt, Şanlıurfa, Şırnak, Van (Ministry of Industry and Technology, 2021).

Table1: Touchstones of Investment Incentive Legislation in Turkey

Official Gazette Title	Law/Decision No	Law/Decision Date	Number (Repeated)
Law of Encouragement of Industry	1055	15.06.1927	608
Building Encouragement Law	5228	6.07.1948	6950
Foreign Capital Investments Incentive Law	5821	9.08.1951	7880
Foreign Capital Incentive Law	6224	23.01.1954	8615
Income Tax Law No. 193 dated 31/12/1960 amendment of some articles and some provisions of this law about the addition and removal of some provisions. Law No 202, Accepted Date: 19.02.1963	6/1466	28.02.1963	11343
Law on Changing the Customs Entry Tariff Schedule under the Customs Law No:474, Date: 14.05.1964	5383	25.05.1964	11711
Law on the Principles of Implementation of the Development Plan- Law No. 933	933	11.08.1967	12671
Communiqué on Incentive and Guidance of Investments	83/1	13.12.1982	17897
Law Concerning the Assignment of Organizations Other than the Turkish Electricity Authority with Electricity Generation, Transmission, Distribution and Trade	3096	04.12.1984	18610
Communiqué on Stamp Duty and Duty Exemption in Exports and Investments (Serial No: 2)	3505	03.07.1993	21626
State Incentives in Investments of Small and Medium Enterprises	96/8615	16.10.1996	22789
Law on Creating Employment and Encouraging Investments in the Regions of Emergency and in Regions with Development Priority and Amending the Income Tax Law No. 193	4325	23.01.1998	23239
Decision on State Aids in Investments of Small and Medium Enterprises (Decision of the Council of Ministers)	99/ 12474	5.03.1999	23630
Decision on State Aid in Investments and Investment Incentive Fund (Decision of the Council of Ministers)	2000/1821	18.01.2001	24291
Law on Encouragement of Investments and Employment and Amending Some Laws	5084	6.02.2004	25365
The Law on the Amendment of the Law on the Promotion of Investments and Employment and Amending Certain Laws	5350	18.05.2005	25819
Decision on State Aids in Investments (Decision of the Council of Ministers - updated annually)	2012/3305	19.06.2012	28328
Decision on Granting Project-Based State Aid to Investments (Presidential Decisions)	2016/9495	26.11.2016	29900
Decision Amending the Decision on State Aids in Investments (Number of Decisions: 4191) (Presidential Decisions)	4191	29.06.2021	31526

Source: Official Gazette

The following regulations and amendments have been made in the light of important legislative practices regarding the implementation of the investment incentive system.

- Capital Allowance Exemption was created by the Law No. 199 of 18.2.11963, which amended the "Eighth Section" added to the Income Tax Law No. 193 with the Law No. 202 dated 19.2.1963 and the last paragraph of Article 8 of the Corporate Tax Law No. 5422.
- The implementation of the financing fund as an incentive measure started with the 8th article added to the Corporate Tax Law with the Law No. 2362 dated 24.12.1980.
- Incentive Measure for Tax, Duty and Fee Exemption in Medium- and Long-Term Investment Loans is implemented in accordance with the provisional article of the Law No. 3505 dated 3.12.1988. The principles regarding the implementation were published in the Official Gazette dated 3.7.1993 and numbered 21626.
- "VAT Incentive; With the Law No. 3099 on the amendment of some articles of the VAT Law No. 3065, the method of Deferring Value Added Tax for Incentive Investments was introduced. Later on (Law No. 4369), the VAT deferment turned into an exception.
- Incentive Premium is an incentive tool that was firstly introduced into legal regulations with the Decree of 12.10.1984 to encourage the use of domestic machinery and equipment in investments. It was abolished after the 1990s.
- Investment Goods Manufacturing Encouragement Credit: The investment goods production incentive application in Turkey started with the "Investment Goods Manufacturing Incentive Fund" established with the Council of Ministers Decision dated 16.10.1985 and numbered 85/9967.
- In-kind and Cash Foreign Credit and Central Bank Rediscount Credits: The first regulation was made in 1984 with the Communiqué No. 85/1 on Incentive and Guidance of Investments.
- Special Discount in Taxation of Employees' Wages in Priority Development Regions started with Law No. 4325 on Creating Employment and Encouraging Investments in State of Emergency Region and Regions with Priority Development and Amending the Income Tax Law No. 193 Official Gazette Date: 23.01.1998 No: 23239. The purpose of the relevant law is to increase investments and employment opportunities by applying tax incentives and providing free public lands and lands in the Emergency Region and Priority Development Regions.
- Energy Incentive: "Law Concerning the Assignment of Organizations Other than the Turkish Electricity Authority with Electricity Generation, Transmission, Distribution and Trade" started to be implemented in accordance with the provisions of Law No. 3096 dated 4/12/1984.
- Resource Utilization Support Premium (KKDP) was given as an incentive in the form of a Grant with the Council of Ministers Decision dated 13.12.1984 and numbered 84/8860. Later, with the decree numbered 91/1468 published in the Official Gazette dated 23.02.1991 and numbered 20795, it was abolished and replaced by a "Credit Based on the Resource Utilization Support Fund (KKDFKK)". The KKDFKK application continued for one year and was transformed into a "Fund Loan" application with the Decree dated 23.02.1992 and numbered 92/2805 (Duran, M., 1998, s.77-86).

The current incentive system, which put into force with the Council of Ministers Decision No. 2012/3305 in 2012, consists of four different applications. These are defined as;

1- General Incentive Practices

2- Regional Incentive Practices

3- Incentive of Priority Investments

4- Incentive of Strategic Investments.

In the Eleventh Development Plan (2019-2023), measures were taken to increase domestic production in sectors with high added value. In addition, according to the Eleventh Development Plan, investment incentives were discussed in more detail, and it was aimed to review the incentive system and make it more effective.

11^{th} Development Plan's investment incentive targets are given following articles;

303: The practices of financial support institutions and the banking system towards of the manufacturing industry will be strengthened.

321. The existing investment incentive system will be reviewed to make it effective and competitive. In this context, a flexible system with measurable impact, including cash-based incentives as well, will be established

322. The services provided in the industrial and technology zones (OIZ, SIZ, Industrial Zones, Technology Development Zones, Free Zones) will be improved so that these regions will contribute more effectively to the competitiveness and efficiency of the industry.

324. To increase domestic production in priority sectors, the public procurement system will be used as a leverage (11^{th} Development Plan, 2019: 62-69-70-71).

According to 11^{th} Development Plan Turkey's priority sectors are; Chemical Industry, Pharmaceuticals and Medical Devices, Electronics, Machinery and Electrical Equipment, Automotive and Rail System Vehicles industries. But Turkey still attaches importance to the manufacturing industry. Thus, other priority sectors include; Textile-Clothing-Leather Industry, Non-Metallic Mineral Products Industry, Basic Metal Industry, Ship-Building Industry, Furniture Industry.

Incentives to be applied to priority sectors and other investments will be shaped according to the following basic objectives. Turkeys' current incentives framework is very detailed and comprehensive. In generally expressed, there are five different incentives. These are as follows.

1. Investment Incentives
2. Employment Incentives
3. R&D and Design Incentives
4. Regional Management Center Incentives
5. Export Incentives

The real sector mainly uses investment incentives. It also benefits from other incentives according to the content of investments and activities.

According to the Ministry of Industry and Technology's Guide to State Incentives for Investments in Turkey (2021) current investment incentives are as follows.

<u>General Investment Incentives</u>

Customs Duty Exemption

VAT Exemption

<u>Regional Investment</u> <u>Incentives</u> (Medium-High Tech Incentives + Priority Incentives)

Customs Duty Exemption VAT Exemption

Corporate Tax Reduction

Social Security Premium Support (Employer's Share)

Land Allocation

Interest Rate Support

+ Region 6 Incentives

Social Security Premium Support (Employee's Share)

Income Tax Withholding Support

Strategic Investment Incentives

Customs Duty Exemption VAT Exemption

Corporate Tax Reduction

Social Security Premium Support (Employer's Share)

Land Allocation Interest Rate Support

VAT Refund

Project Based Investment Incentives

Cash Support VAT Exemption

Customs Duty Exemption

Corporate tax reduction up to 200% of investment expenditures

Social security premium support for up to 10 years (employer's share)

Income tax withholding support for 10 years Qualified personnel support for up to 5 years

Energy support for up to 50% of energy expenditures for up to 10 years

10 years Interest rate support for up to 10 years

Capital contribution up to 49% of the investment amount

Land allocation for 49 years

Infrastructure support

Purchasing guarantee

Facilitation of authorization-permit-license procedures

VAT refund for building-construction expenditures

In the discussions on the evaluation of the incentive system, especially the problems are emphasized. According to Duran, with the widespread use of the system between 1980 and 1998, it is seen that the lack of supervision and the follow-up of Incentive Documents could not be done adequately. Determining the realizations in the details of regions, provinces and sectors is important in terms of measuring the success of the implementations. According to Duran, the fact that a registration system has not been established for incentive investments makes it difficult to evaluate in this detail. Therefore, it is not possible to determine exactly to what extent the Incentive Certificates given have turned into investments, in general, regional or sectoral terms. Compared to various countries, it is seen that the financial dimensions of the incentive system implemented in Turkey are quite low. For the formation of a rational incentive system in the suggestions brought to the problems; It was stated that the implementation of a selective, regional priority, simple, effective, and controlled system on a project basis would be effective (Duran, M., 1998: 174-188-195).

Çelik considers making the support applications for the underdeveloped regions more diverse and attractive as another point that should be emphasized. However, Çelik thinks that all these support practices cannot produce permanent solutions and that the effectiveness of incentive policies is limited in eliminating inter-regional development disparities. Çelik recommends the introduction of policies to increase the competitiveness of the regions in order to combat the problems of poverty, unemployment, migration and even terrorism, especially in the Eastern and Southeastern Anatolian Regions (Çelik, 2017:10).

Gürler-Hazman and Karakuş-Büyükben suggest informing local businesses about benefiting from incentives by expanding the scope of incentives for small and medium-sized enterprises and increasing economic impacts (Gürler-Hazman and Karakuş-Büyükben, 2020, 210).

Yılmaz emphasized that investment promotion and incentive practices in Turkey have been affected by political, economic and social crisis periods in the historical process. According to Yılmaz, the incentive system has changed over time according to the perspectives of the governments on the economy, and in this sense, it has turned into one of the most effective propaganda tools of the governments (Yılmaz, 2020:440).

Takım and Ersungur Turkey emphasizes that incentive practices do not turn into output when the basic indicators of its economy are considered. This situation reveals the necessity of applying incentives not alone, but together with other structural measures. Takım and Ersungur lists their criticisms and suggestions regarding the incentive system as follows:

The incentive system has a complex structure, employment-related incentives that provide different immunity to workers and employers should be reviewed and made simpler.

Developed country incentive applications, which are modeled without considering local conditions, may fail.

Like Yılmaz, Team and Ersungur also think that incentive practices in Turkey are largely affected by the decisions of the political authority. According to Team and Ersungur, while the most incentives are applied as an expansionary fiscal policy tool, especially in the pre-election periods, the incentives given are often far from economic activity and reflect political preferences rather than productive areas. In this respect, incentives become one of the most speculated issues. In addition, since there is a lack of coordination between institutions included in the incentive system, monitoring, evaluation and performance results cannot be measured in a healthy way. The multi-headed institutional structure in the incentive system weakens the effectiveness of the audit. Although large amounts of incentives are given in different areas, above the national scale, neither investments nor production; neither exports nor employment increased at the required or expected level. Ultimately, the short, medium and long-term goals to be achieved with incentives and the tools used to achieve these goals should be clearly stated (Takim and Ersungur, 2018: 740-742).

Based on the above given information and discussions, when we analyze the investment incentives currently applied in Turkey, it is possible to observe that the incentives in the 2000s were much more differentiated and changed and transformed compared to the 1960s. According to the expression of the Ministry of Industry and Technology, incentives are now removed from a collective perspective and *"incentives may also be tailored for projects in priority sectors* *classified as key areas for the transfer of technology and economic development”* (Ministry of Industry and Technology, 2021).

Conclusion

The industrialization is the process of formation of production, financial and commercial sectors necessary for industrialization. The state can have different impacts at different stages of this dynamic process. However, especially in the industrialization process, the influence of the state in the field of real sector gains much more importance.

Considering the strategies for the internationalization of the real sector in terms of the incentive system, it is stated that “economic growth” shall be achieved by opening up to foreign countries in “development” strategies with “national” emphasis. According to the opinions of development theorists who associate economic development with the outward-oriented industrialization process, the development of these sectors can be achieved by ensuring the indivisibility of investments for exporting sectors, creating externalities and economies of scale, and creating forward and backward links between sectors. Development theorists argue that in this way, late industrializing countries can reach the level of early industrialized countries and at the same time achieve economic growth in parallel.[7]

When development economics is analyzed from this point of view, it is observed that the suggested strategies are oriented towards the development and internationalization of the real sector. It is noteworthy that the state is perceived as the sole determinant actor in the functioning of the economy in the “development” strategies suggested in the internationalization process of the real sector. In fact, the “development” strategies for outward-oriented industrialization also include national and international regulations deemed necessary for the expansion of the real sector and industrialization. Suggestions of the “development” strategies, which give the state an active role in this process, indirectly indicate investment incentives. It is important to consult to the legislation in order to encourage investments but analyzing the legislation without considering the social references may cause it to become insufficient. When the incentive legislation is analyzed within the framework of social references, all economic instruments that can be used as incentives by the state depending on the requirements of the industrialization process - for example, exchange rate and interest policies, domestic prices, tax system, employment policies, import-export policies, regulations for the promotion of foreign capital - are effective in the formation and development of the real sector. The state can provide support for the formation and development of the real sector through direct and indirect incentives. These incentives may be on the basis of companies and sectors, or they may occur at a level that affects other forms of capital and all economic activities.

In Turkey, the real sector began to form between 1960 and 1980, and the internationalization process has accelerated by developing since 1980. In this process, after the crises of the late 1970s, the functions and sphere of activity of the state, which we can call the neo-liberal structuring, were reshaped in the 1980s. After 1980, many regulations and changes were carried out such as privatization, which can be defined as the shifting of the public sphere to the private sphere, the formation of supreme councils, commercial and financial liberalization, reorganization of the tax system and reorganization of employment laws. Trade liberalization facilitates the arrival of qualified inputs, means of production and wage goods into the country. On the other hand, financial liberalization is a factor that reduces the competition between countries with exchange rate policies, interest policies, inflation and

[7] See: Rostow (1960), Hirschman (1958), Lewis (1968), Meier (1958), Nurkse (1958), Rodan (1958).

devaluation strategies that ensure the import of insufficient capital from abroad, and thus reduces production costs through control over labor. In terms of the post-1980 development of the real sector, the functions of the state have transformed in a way to accelerate the internationalization of the real sector. In this process, it is possible to observe that the adaptation of the "development plans" in a way providing open industrialization, the suppression of domestic demand, the limitation of wages, the money and credit system, the fiscal and tax system, and import and export policies can turn into incentive tools that shall ensure the internationalization of the real sector.

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