HYUNDAI MOTOR COMPANY’S OVERSEAS MANUFACTURING POLICY: THE ANALYSIS OF TURKEY AS A PRODUCTION SITE

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DECLERATION OF ORGINALITY

I, Kuntay Yiğit Uçar, certify that

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ABSTRACT

Hyundai Motor Company's Overseas Manufacturing Policy: The Analysis of Turkey as a Production Site

By the 1980s, the dominance globalization was felt on the world economy. Large companies in developed countries have started to make overseas investments in order to make more profit, consequently they have turned into multinational companies. Developing countries also need to have some qualifications to attract these investments in to their own countries for economic development and stability. Foreign direct investments have effects on many macroeconomic indicators such as employment, exports, balance of payments, production, and inflation of the host country. Due to the understanding of the importance of these investments in Turkey by 1970s, foreign direct investments on Turkish Automotive Sector started. Automotive sector has a key role on economic development for both developed and emerging countries. It is known that automotive sector has a very important place for the Turkish economy. Foreign capital investments on automotive sector played an important role for the growth of the Turkish economy. In this context, it has become necessary to conduct more studies on foreign capital investments made in automotive industry, which can be seen as the locomotive sector of country's economy.

In this thesis, the development and growth of the Turkish Automotive Industry with foreign capital investments has been examined in light of the investments made by South Korean Hyundai Motors Company in Turkey. In addition, the effects of Hyundai Assan joint venture on country's economy and the results of these effects in terms of economy, politics and social areas are examined.

ÖZET

Hyundai Motor Company'nin Deniz Aşırı Üretim Politikası: Bir Üretim Tesisi Olarak Türkiye Analizi

1980'li yıllar ile birlikte küreselleşmenin hakimiyeti dünya ekonomisinde hissedilmiştir. Gelişmiş ülkelerdeki büyük şirketler kar amaçlarını gerçekleştirebilmek için denizaşırı yatırımlar yapmaya başlamış ve bu büyük şirketler çokuluslu şirketlere dönüşmüştür. Gelişmekte olan ülkelerin de ekonomik kalkınma ve istikrar için bu yatırmları kendi ülkelerine çekmek için bir takım niteliklere sahip olması gerekmektedir. Doğrudan yabancı yatırımlar ev sahibi ülkeye ait istihdam, ihracat, ödemeler dengesi, üretim ve enflasyon gibi birçok makroekonomik göstergeyi etkilemektedir. Türkiye'de bu yatırımların önemini 1970'li yıllardan itibaren kavranılmasıyla birlikte Türk Otomotiv Sektörü'ne doğrudan yabancı sermaye yatırımları başlamışıtır. Otomotiv sektörü gerek gelişmiş gerekse de gelişmekte olan ülkelerde kalkınma için kilit bir role sahiptir. Otomotiv sektörünün Türkiye ekonomisi için çok önemli bir yere sahip olduğu bilinmektedir. Otomotiv sektörüne yapılan yabancı sermaye yatırımları Türkiye ekonomisinin büyümesinde önemli rol oynamıştır. Bu bağlamda ülke ekonomisin lokomotif sektörü olarak gösterilebilecek otomotiv endüstrisine yapılan yabancı sermaye yatırımları üzerinde daha fazla çalışma yapılması gerekliliğini doğurmuştur. Bu tezde, Güney Kore'li Hyundai Motors Company'nin Türkiye'de yapmış olduğu yatırımlar ışığında Türk Otomotiv Endüstrisinin yabancı sermaye yatırımları ile gelişimini ve büyümesini incelemiştir. Bunun yanında Hyundai Assan ortak girişiminin ülke ekonomisine olan etkilerini ve bu etkilerin ekonomi, politika ve sosyal alanlardaki sonuçları incelenmiştir.

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INTRODUCTION

1.1 Introduction

Automotive Industry is a global sector that has developed since the early 1900s and has forward and backward connections with many other sectors. Approximately 90% of the 80 million vehicles produced annually on a global scale are produced by 10 companies from 6 countries. Some of these companies reach an annual production level of 10 million vehicles. Turkey is both an important market and production center for the automotive industry, which is one of the most important parts of the global economy. If Turkey wants to take part in production, assembly, and sub-industry of motor vehicles in global economy, it has to cooperate with multinational automotive manufacturers. In order to ensure this cooperation, it is necessary to carry them out through foreign direct investments. Foreign investments, which we also call global capital, have serious contributions to both country's economy and development of social life in developing countries. In Turkey, we see foreign direct investments in many sectors and business lines. The most important of them are automotive and energy sector. There are serious foreign capital investments on the production of motor vehicles and motor vehicle components in Turkey. In addition, with the help of foreign capital investments, the skills of developing countries in various industrial and production fields such as know-how, technology, business and process flow, market and sales are increased.

Direct foreign investment is a concept used to express the capital flow that occurs at the international level due to the establishment of a new company in a country, the addition of an existing foreign company, or the acquisition of an existing company in that country. Foreign capital formed in this way should not be perceived as just a resource transfer. The issue of not abandoning the control mechanism in direct foreign capital investments should be emphasized. The most important feature of direct foreign capital is that such capital flows are not similar to foreign portfolio investments. Such investment expenditures retain control of a real production unit. Foreign investments make significant contributions especially for countries with low savings, as well as technology transfer, production knowledge transfer, etc. They can directly benefit from these contributions, including factors. Regarding developed countries, it is a matter of using idle capital and providing additional income.

The aim of this study is to analyze the main macroeconomic effects of foreign direct investments. In this thesis, foreign direct investments will be examined based on the automotive industry. Foreign capital investments in Turkish automotive industry and Hyundai Assan joint venture will be exemplified and analyzed in detail.

1.2 Literature review

The automotive sector is the leader in the world economy. Our literature review reveals that FDI is the main force and fundamental phenomenon behind the automotive industry in Turkey as well as in other countries of the world. High production costs and political and environmental impositions encountered in developed countries have directed low-cost foreign direct investments to developing countries. The effects of FDIs on growth, productivity, employment, exports, development of sub-industry and technology transfers are examined by focusing mostly on the developing economies of the world. There are some studies on the relationship between economic development, exports, employment growth, market expansion and other spillover effects for the Turkish main and sub industry

(Aslanoğlu, 2000), (Taymaz and Yılmaz, 2008), (Yaşar), which have been studied regarding FDI inflows. and Paul), (Hisarcıklar, Karakaş, Asıcı, 2009), (Gürsoy, 2010). However, studies on the impact of FDIs on the Turkish automotive sector are lacking, probably due to limited historical data on FDI on the automotive sector.

There is growing interest on the impact of foreign direct investment (FDI) and globalization on host country economies. However, automotive industry is one of the sectors that receive the most FDI. There are many studies and empirical results in this area. Ricky W. Griffin (1999), Klaus Meyer & Saul Estrin (2001), Philip Kotler (2001) found and explain evidence and details of Foreign Direct Investment. Yoshino and Rangan (1995) said that “Joint Ventures have emerged in recent years as a popular strategy in an environment in which fast access to up-to-date technology and emerging markets is more critical than ever before”.

Zhang (2001) argued that Foreign Direct Investment partially alleviated the balance of payments deficit of companies, as well as growth impact similar to domestic investment.

According to Aitken and Harrison (1999), they found evidence of the negative spillovers of FDI on domestic productivity in Venezuela. According to Rodríguez-Clare (1996), when multinational companies revise their investment, gain locally less earnings and inputs than local companies they replace, it is observed that the impact of investment is negative for them. In these circumstances, it shows that FDI leads to a reduction in input diversity and host country productivity.

Although there are many different opinions in the literature for automotive sector, the most important common thought is that the automotive sector is one of the most important economic catalysts in every country. (Orsato and Wells, 2007) It creates direct and indirect industries covering almost all steel, rubber, plastic and electronic products. According to Jahanzaib (2008), 66.5 million passenger and commercial vehicles were produced in the world with an installed capacity of 85 million. According to Hallgren and Olhager (2009), increased competition, global markets and more demanding customers are the contributing factors. Therefore, this should be the focus of today's business environment.

1.3 Research methodology

The targets of this research are to understand the phase of FDI and automotive industry development, the effects of globalization on automotive industry and joint venture effects on development of automotive industry in emerging countries.

At the beginning of this thesis, important information has been provided about the theory of FDI and Globalization that have formed strategic alliances in World and Turkey. After this, the history and evolution of automotive industry has been emphasized. The effect of FDI and Globalization on automotive industry has been explained and discussed in chapter 3.

In chapter 4, Hyundai Assan joint venture example has been analyzed and the effects of the alliance has been revealed in terms of economic, political, and social perspective. Relationships among various variables have been studied by using the data available about the sector. As a result of these data graphs have been created and evaluations have been reached about the strategic alliances.

The data that have been used in the evaluation of automobile, commercial trucks, agriculture vehicles, buses and trucks are obtained from the Association of Automotive Manufacturers, Association of Automotive Distribution, YASED, Turkish Statistic Institution and General Directorate of Foreign Investments of Treasury. Evaluations are presented as graphs and tables.

This study depends mostly on literature research and reports on the industry and also companies. In addition, recent data and information were obtained from current industry magazines, annual reports, and related web sites.

CHAPTER 2
FOREIGN DIRECT INVESTMENT

2.1 Introduction to foreign direct investment theory

In today's world globalization is rapidly increasing, information and communication technologies are constantly evolving. In this rapidly changing period, closed national economic structures have left their places to open economies. This process started with the capital formation created by capitalism that developed after the industrial revolution, and today multinational companies have caused an international foreign capital traffic that has reached incredible dimensions with the effect of globalization. International capital movements are an important factor affecting the economic development and changes of today's nations.

In the early 1980s, the global competition and global integration process led to changes in the paradigms of many countries regarding economic development. While participation of countries in the international economy and initiatives to integrate with the world economy accelerated the transition to cooperation systems that will improve their competitive advantage, the most focused issue in these developments has been foreign capital.[1]

In 21st century, it has become necessary for developing countries to plan and implement large and pioneering investments in order to advance their economic development. However, the need for technological infrastructure, knowledge and experience necessitates for foreign capital investments. Foreign direct investment is either made by acquiring a firm in a country or providing the founding capital for a

[1] Batmaz et al., Doğrudan Yabancı Sermaye Yatırımlarının Ekonomik Büyüme üzerindeki Etkileri, 48.

newly established firm, or lastly increasing the capital of an existing firm. It is an investment made by companies located in investor country, on companies located in a foreign country. The investor company bring its technology, business knowledge, know-how and also their control authority. Foreign direct investments are made by multinational companies that own and operate physical capital in the foreign country.

Investor countries and multinational companies may contribute to economic development by establishing technological infrastructure, supplying production equipment, and providing intangible rights and services such as patented products and licenses to the country they plan to invest in. The ideal way to contribute to production by investing financially and technologically from one country to another in a short time is to use foreign capital investment. As a result of these investments, the investor country obtains a property right thanks to the economic, technological or information transfer it has made and as a result, it gains profit. On the other hand, the investing country obtains some or all of the capital required for economic development from external sources. As a result, a close relationship is established between foreign capital and developing countries and joint investments.

Foreign direct investment is the primary element of economic integration and mutualist development, which we also call globalization. FDI enables a structure that aims to establish direct, stable, and long-term bridges between economies. In a stable and peaceful policy environment, it serves as a critical element for the development of local and domestic enterprises and can also help to improve the competitive position of both the recipient ("host") and the investing ("home") economy. FDI as its most important effect promotes the transfer of technology and know-how between economies. It also provides the host economy with the opportunity to promote their products in international markets more widely. In addition to its positive impact on the development of international trade, FDI is an important source of capital for several homeowners and domestic economies.[2]

2.2 Direct foreign capital investment types

Foreign Direct Investment types will be examined under two main headings: the ownership status and the purpose of the investment.

2.2.1 FDI by ownership status

After companies decide on foreign direct investment, they can open to foreign countries where they will invest in different ways. This route is determined according to the structure and characteristics of the country to be visited. In addition, the strategic decisions made by multinational companies determine their ownership status. According to Ricky W.Griffin, companies that make direct investments abroad can take one of the following ways and show up in the markets they target outside their own country.[3]

These investment types are classified as follows.

- Building new facilities from scratch - Greenfield Strategy
- Purchasing existing facilities - Brownfield Strategy
- Involving the process of combining two companies into one – Mergers and Acquisitions
- Cooperating with a local company - Joint Venture

[2] OECD, Benchmark Definition of Foreign Direct Investment.
[3] Griffin, Management Sixth Edition, 1999.

2.2.1.1 Greenfield investment strategy

FDI can be achieved by establishing a new business or a new factory in the host country. Such investments are called Green Field Investments. According to the definition made by UNCTAD, "Green Field Investments means investment projects realized with the establishment of new production facilities such as offices, buildings and factories as well as intangible capital movements (especially in the service sector).[4]

Since it is an investment type that directly increases host country stocks, capital efficiency and employment, it is viewed more positively by the host country. The reason for this is that Green Field Investments are mostly made in the form of fixed capital investments, and they do not only provide direct foreign exchange inflows to the country.

Greenfield investments occur when multinational companies establish a completely new facility in the host country. This type of investment is the most desired investment type by the host country, as it has the potential to create a new business and an added value. This type of investment is usually made through sister companies. This kind of FDI projects have with high risk, high initial cost, and long return on investment period.[5]

2.2.1.2 Brownfield investment strategy

As can be seen in Figure 1, it expressed the brownfield investment where red and green colors are in same percentages over the origin of the resources used in production.

[4] UNCTAD, “FDI from Developing and Transition Economies: Implications for Development”, p.15.
[5] Hanink, Principles and Applications of Economic Geography, 67.

A Brownfield investment is when a firm or government agency purchases or contracts an existing facility to start its new business. Brown Field Investments represent a specific form of acquisitions. In these types of investments, the first thing to buy takes place. Klaus Meyer and Saul Estrin in his study in 2001, Brown Field Investment has been defined as a hybrid investment type between Green Field Investment and Acquisitions.[6]

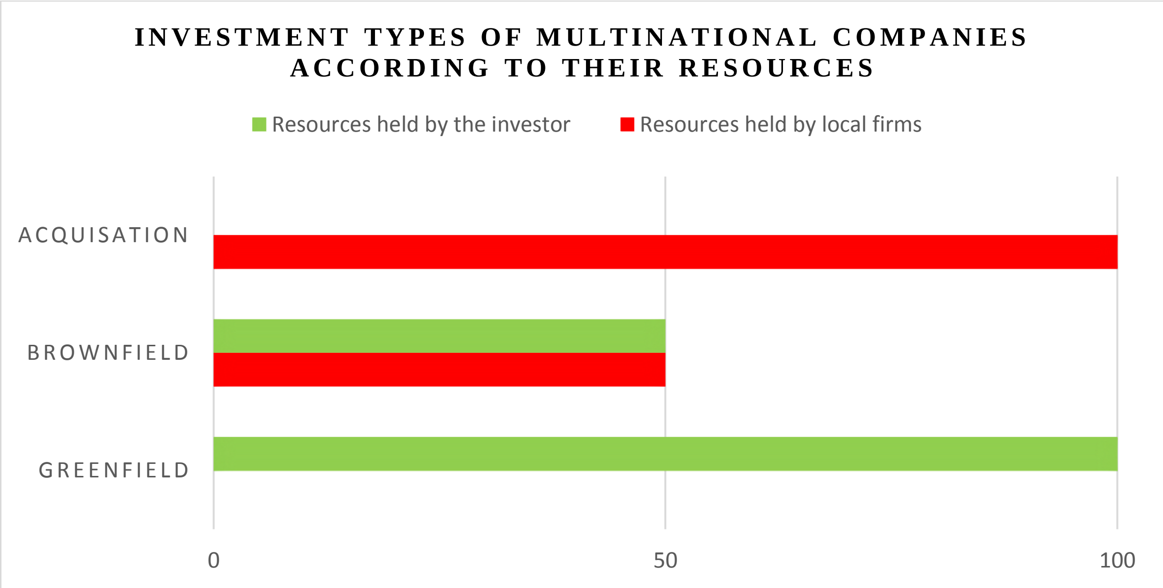

Figure 1. Investment types of multinational companies according to their resources
Source: Klaus Meyer, Saul Estrin (2001)

2.2.1.3 Mergers and acquisitions

Merger and Acquisition investments are defined as a foreign investor's acquisition of an existing company in another country or a merger with a company in a foreign country. Merger and acquisition strategies offer important opportunities to companies that want to enter foreign markets quickly as a type of direct investment in international markets. With the beginning of the twentieth century, these strategies

[6] Meyer et al., "Brownfield entry in emerging markets", 575-584.

started to be mentioned frequently in business and management world. International mergers and acquisitions have taken their place in today's markets as part of globalization and liberalization, where the positive impact of foreign direct investments on development is acknowledged by everyone.

This type of investment has two advantages over greening investments. The first advantage is that this type of investment is cheaper, which means it costs less to multinational companies. Secondly, it enables a faster entry into the market than a brand-new investment for multinational companies. Although merger and acquisition investment provide an advantage for multinational companies, it is often perceived as disadvantageous for the host country. Host country governments sometimes reject, sometimes resist, or impose restrictions on foreign companies from buying or merging with domestic companies, with the concerning idea that the control of the country's economy will pass to foreigners. On the other hand, some of them state that although international mergers and acquisitions may have a negative effect in short term, they will bring many benefits such as technology transfer, know-how, expansion of the existing facility or even new investment in long term.[7]

2.2.1.4 Joint venture

"A joint venture is a partnership between a local firm and foreign investors, combining their power to create business in the local market, sharing ownership and control." [8] If both parties of the joint venture are foreign companies, it is called the foreigners' joint venture. If one of the parties is local and the other is foreign, this type of joint venture is called foreign-local joint venture. For example, South Korean

[7] Moosa, Foreign Direct Investment: Theory, Evidence and Practice, 55.
[8] Kotler et al., Principles of Marketing, 3th European Edition, 171.

Hyundai Motors Company, and Kibar Holding (ASSAN) from Turkey have made a partnership to produce automobile in Turkey, therefore they have established a foreign-local joint venture. The combination of Hyundai Assan has emerged.

A joint venture can be an easy or even a single way to enter to a particular market. This is because some countries do not allow 100% foreign business investment. Conversely, some countries allow completely foreign enterprise investment in each line of business, while some countries allow fully foreign direct investment in some specified lines of business. Establishing a fully owned subsidiary is when one or more foreign investors come to the host country and set up a business on their own. The difference is whether there is an investor in the property from the host country.

The choice of which of these two options will be chosen by the foreign investor and may vary depending on the market, traditions, religion, consumption patterns, business connections, xenophobia, production technology, patents, licenses, and property rights in the host country.[9]

2.3 Determinants of foreign direct investment

Developing countries use a variety of factors to attract foreign capital investments into their own countries. FDI is affected by various factors of both the country seeking investment and the investor country or multinational companies. Developed countries are looking for an environment in which they can increase their competitiveness and profits. On the other hand, developing countries that are insufficient in terms of capital and technology are trying to prepare a suitable

[9] Seyidoğlu, Uluslararası İktisat Terori Politika ve Uygulama, Genişletirilmiş 16. Baskı, 124.

environment for foreign capital. The reasons of creating FDI differ in line with the common interests of capital owners and countries that want to attract such investments into their country. Both parties’ expectations that benefit from this kind of investment depend on the parallel progress of each other.

The economic development priorities of developing countries include achieving a sustainable economic growth, creating more and better employment opportunities, strengthening technological development and protecting the environment for future generations. Achieving some of these goals is only possible if countries can attract foreign direct investments. In addition, FDI reduces the current account deficit in developing countries, as well as the risk of lagging behind in technology field and can contribute significantly to global competitiveness. For this reason, in recent years developing countries have been trying to attract FDI instead of borrowing from foreign countries. However, foreign investors draw their road maps in a planned manner, considering many factors while making investment decisions. Therefore, it is necessary to mention the determining factors that play an important role in investment decision. In this part of the study, the determinants of Foreign Direct Investment are emphasized in two directions, in terms of the recipient ("host") and the investing ("home") country.

In practice, multinational corporations and host countries negotiate on many issues, including taxes, subsidies, financing arrangements, use of foreigners, education, local employment, local input, export conditions and repatriation of capital, i.e. factors related to the areas of state intervention in FDI. Bargaining power is important during the negotiation process. In addition, FDI is affected by the competitive nature of the economy, market size and projected market growth, political stability, level of infrastructure and donation of natural resources, as well as competition from other host governments.[10] It is also stated in detail in the report that UNCTAD (1998) mentions the approach and classification in determining of FDI. In this study, UNCTAD has classified the factors determining FDI under three titles as political, economic and investment environment.

Host Country Determinants of FDI	
I. Politic Factors	Tax Policy Trade Policy (Tariffs) International Agreements on FDI Economic, Political and Socail Stability
II. Economic Factors	Market Size and GDP Market Growth Access to Market Country and Consumer Preferences Raw Meterials Skilled Lobour Infrastructure Technological Assets Cost of Resources Other Input Costs Regional Corporate Networks
III. Business Facilitation	Investment Promotion Investment Incentives Hassle Costs Social Amenities After Investment Services

Figure 2. Host country determinants of FDI
Source: World Investment Report 1998: Trends and Determinants (1998)

[10] Faeth, "Determinants of foreign direct investment a tale of nine theoretical models", 165-196.

2.3.1 Politic factors

One of the most fundamental factors affecting the investment decision is the political stability in the host country. Multinational companies and investor countries view investing in a politically unstable country as putting their capital at risk. Due to this reason, no investor prefers to invest in a country where there is no political stability. Countries with stable political institutions and low long-term risks are always more attractive to foreign investors. Confident environment is very important for foreign capital investments. Expected profits of the investment generally take place in the long term in foreign direct investments. Thus, investor confidence not only reflects confidence in current political outlook, but also expectations of long-term political and economic stability. Characteristics of the political regime, attitudes of civil servants, private sector executives and trade union leaders in the host country are other determinants of the country's attractiveness in terms of potential investments. However, other than the factors affecting foreign direct investment, the country's privatization policies, tax policy, competition, and policies such as company acquisition and merger policies can be shown. No foreign investor would prefer to stay in a country where they are exposed to high tax rates that consequently lead them to lose their profits. In addition to these, the country to be invested can be effective in the facilities provided to foreign investors and the legal and technical regulations made.[11] Foreign investors give more importance to political, economic, and social stability since political risk can cause much greater losses that the other risks. Multinational companies operating in international environment has to evaluate the possible risks that the political environment in each host country where their activities can come to a standstill. These multinational corporations decide how to

[11] Sullivan, "Foreign Direct Investment", 12.

take action after assessing the potential political risks of investing or maintaining existing operations in a country.

Multinational companies can cope with risk by adapting to these political and economic conditions even there is political and economic instability. Management of political risks suggested by Taoka and Beeman are listed below:[12]

- Equity sharing,
- Participative management,
- Localization of the operation
- Development assistance.

Therefore, in order to attract foreign direct investment to the country, a country must be a politically stable.

2.3.2 Economic factors

In order to attract foreign direct investment, it was necessary to have different characteristics in different periods. One of the most important factors affecting foreign direct investment decisions is the economic stability in the country where these investments will be made. In a sustainable economy, the basis of economic stability is shaped by economic development and growth, stable prices, foreign exchange, interest policies and perfect competition conditions.

Other economic factors that multinational companies seek in the host country are the size of the market, the abundance and availability of natural resources, the simplicity of commercial conditions and customs tariffs, and lastly the presence of cheap labor. After the Second World War, presence of raw materials needed by

[12] Deresky, International Management: Managing Across Borders and Cultures, 5th Edition, 16-24

developed countries was seen as the most important factor in attracting foreign direct investment. When we examine the location theory, it is seen that the place of production is determined by the resources. For instance, aluminum mining is done in areas where bauxite mines are located, whilst processing of aluminum will be economical when it is done in places where electricity is cheap. Similarly, transportation costs and trade barriers are the determining factors in selection of the places of production.

For foreign direct investments, size of the market in the host country, development market rate, access to regional and global markets, market structure and development of local trade are very important. For foreign investors, market size and rapid development means more demand and more profitability. Market size has always been one of the most important economic reasons, as investors can easily sell their products in the country where they invest and make more profits.

Foreign investors would aim to reduce their production costs as much as possible, therefore they would prefer to invest in countries with high raw material availability. Also, where infrastructure has reached sufficient levels in terms of energy, transportation and communication and lastly where labor is cheap, in order to maximize their profits.[13] Today, the diversity and abundance of raw material resources in a country continues to be an advantage in terms of attracting FDIs.

There is cheaper labor in developing countries due to the rapid increase in population growth than in developing countries. The low cost of labor creates a lowering effect on investor operating costs. Such regions have relative appeal in terms of costs.[14] However, with the development of new labor-saving technologies

[13] Dunning, Multinational Enterprises and the Global Economy, 60.
[14] Lal, “Appraising Foreign Investment in Developing Countries”, 22-34.

and usage of these tools by international companies, cheap labor is relatively less important. The fact that labor costs have a share of 10-15 percent in the total costs seems to support this trend. On the other hand, the rapid increase in costs of senior executives in developed countries causes international investors to prefer developing countries with well-trained human resources. In this period of rapidly increasing competition around the world, international companies turned their faces towards developing countries with production development and highly skilled workforce.

2.3.3 Business facilitation

Incentives are among the most important factors determining the investment climate. Before making foreign direct investments, multinational companies examine issues such as the effect of incentives given in that region on costs. In addition, it is important for foreign investors in bribery and bureaucratic transactions under this heading. The problem of bureaucracy and red tape in underdeveloped or developing countries is a fact known by everyone. For this reason, bribes given to overcome bureaucracy may negatively affect investment decisions in some cases. Providing a supportive environment for the investing company after the investment is made, encouraging them to remain in the country and make new investments can also be included under this heading as few factors. Investing in regions with cheap workforce is important in terms of achieving higher profit realization for companies that produce manpower.

Sometimes companies aim to increase their sales by using their brand identities. For example, we can see that Michelin, one of the largest tire manufacturers in the world, has opened up abroad, instilling confidence in its customers and increasing their sales easily. When globally reputable companies enter the local markets, they first try to gain customers by explaining their position in the world and emphasizing that they have been in this business for years.

High value-added investments are realized thanks to few investment incentives. These can be listed as targets set in development plans, increase in production and employment rates and encouragement of regional and large-scale investments with high R&D content. Also, strategic investments that will enhance international competitive power, increase international direct investment, reduce disparity regarding the development level of regions, support investments around clustering and environmental protection and R&D activities can be listed afterwards.[15]

Continuous supportive services and incentives during and after the investments are key to foreign investors. For instance, multinational investor companies bring their top executives and employees from their own countries as expats to the country where they invest, in order to provide the workforce to some departments. In this context, it may be important to increase the number of institutions that provide education in foreign languages so that the children of the employees can continue their education. In this context, post-investment supports, and organizations are important for the sustainability of FDI investments.

2.4 Effects of foreign direct investment on developing countries

Today, developing countries are in a great competition among themselves to attract foreign direct investment. Many of these countries implement various investment incentive policies in order to get a larger share of the global foreign

[15] Istanbul Chamber of Industry, "What is Investment Incentive Certificate?", 2-5

capital pie. The first question that comes to mind is why developing countries need foreign direct investment to sustain their economic and social development.

Foreign direct investments should not be considered only as a currency movement between countries but also management and marketing knowledge, technology transfer, export opportunity, know-how and company culture. These other factors will also come along with the help of direct foreign capital investments. Such development opportunities will force local companies in the invested sector to develop themselves in order to maintain their competitive power. In this way, a long-term and permanent development will be established in the entire investment sector. This feature differentiates foreign direct investment movements from other types of foreign investment.

Zhang (2001) argued that Foreign Direct Investment partially alleviated the balance of payments deficit of companies, as well as growth impact similar to domestic investment. It has argued that, through technology transfer and production efficiency, foreign direct investment inflows can stimulate a country's economic performance.[16]

On the other hand, there are some serious doubts about the adverse effects that occur due to FDI in developing countries. According to Aitken and Harrison (1999), they found evidence of the negative spillovers of FDI on domestic productivity in Venezuela. Several explanations have been proposed to explain the negative or statistically insignificant results. The most plausible explanation for the negative effects is that foreign firms reduce the productivity of domestic firms with the effects of competition.[17] According to Rodríguez-Clare (1996), when

[16] Zhang, "Does foreign direct investment promote economic growth?" 175-185.
[17] Aitken et al., "Do Domestic Firms Benefit from Direct Foreign Investment? Evidence from Venezuela." 18-19.

multinational companies revise their investment and gain locally less earnings and inputs than local companies they replace, it is observed that the impact of investment is negative for them. In these circumstances, it shows that FDI leads to a reduction in input diversity and host country productivity.[18]

Despite these concerns, most macroeconomic studies conclude that FDI has a positive impact on the economic growth of developing countries. Particularly, countries with higher per capita income, better educated workers, higher degrees of openness, and a well-developed financial system benefit significantly from FDI.[19]

In the light of these studies and indicators, I would like to classify the positive and negative effects of FDI in terms of economic growth and development of emerging countries.

Potential positive effects of FDI	Potential negative effects of FDI
Continued and sustainable production	Local dependency on foreign capital
Access to worldwide sale and distribution networks	External control of local economies
Improved competitiveness	Disinvestment and downsizing of production
Saving of existing jobs and creation of new jobs	Increased foreign currency expenses
Increased labour productivity	Deterioration of local economic integrity
Growth income	Dependency on foreign technology
Increased exports	
Improved competitiveness	
Increased tax revenue	

Figure 3. Potential positive and negative effects on FDI in host countries

[18] Rodríguez-Clare et al, "Multinationals, Linkages and Economic Development", 73-75
[19] OECD, "Foreign Direct Investment for Development"

2.4.1 Potential positive effects of FDI

One of the most important effects of Foreign Direct Investment on the country's economy is that it stimulates and mobilizes domestic investments within the country. This action can be seen in domestic companies that have established partnerships with foreign capital companies, as well as in other domestic companies trying to survive the increasing competition conditions in the market.

Foreign capital investments increase the production capacity of the host country, both with the initial capital it brings and by reinvesting the profits it generates in the host country. As a result of this new production capacity, the increase in national production and the expansion of employment are sustained. By this way, the problem of capital and production insufficiency of developing countries is aimed to be solved and therefore investments make a significant contribution to the development of the host country.

The impact of direct foreign capital investments on employment is also significant. The need of human resources due to foreign direct investments are largely met by the host country where the investment is made. In developing countries where unemployment is high and employment conditions are difficult, foreign direct investment provides favorable opportunities for this environment. In fact, an important reason for developing countries to attract foreign direct investments is the low wage level. As a result of direct foreign investment shifting towards developing countries where labor-intensive production is widespread, it leads to an employment-increasing effect within these countries.

In addition, host countries expect foreign companies to engage in research and development activities in their countries. They also expect training of local personnel on business administration and modern technology.

Another positive contribution resulting from direct foreign capital is that foreign companies bring dynamism to domestic economy and increase in domestic competition. If the domestic industry has a monopolistic position, presence of foreign companies may contribute positively as an increase in resource efficiency and decrease in domestic prices by breaking the monopoly.

Another benefit expected from foreign direct investment is that, in conditions where an effective tax system can be applied, the profits generated by foreign capital can be an important source of tax for the host country's government. However, increasing tax rates applied by developing countries in order to expand the tax resource may have a deterrent effect on the inflow of foreign capital investments. This taxation system needs to be well adjusted by the host country governments.

Foreign direct investments will help the development of economic and political relations between countries importing and exporting capital. The country that exports capital may become more sensitive to political developments, economic indicators, and political stability in countries where its investments are concentrated. Foreign capital investments enable countries to integrate more and more efficiently into the international system.

2.4.2 Potential negative effects of FDI

Although foreign direct investments have positive effects on host country's economy, in some cases they may also have negative consequences. In this part of the study, these negative effects will be briefly emphasized.

One of the negative effects that foreign direct investments may cause is related host country's policies. There are risks that may arise if multinational companies with great economic power start to have an impact on the political life in the country they invest in. Today, there are many multinational companies that makes more revenue than the GDP of many countries. The strategic decisions to be taken by these companies have serious effects on the economy and policies of some countries.

Increasing foreign control on the economy of the host country is one of the important negative effects. The main sectors of the country can be taken over due to foreign capital investments, which are accepted without any regulation or forward planning. As a result, multinational companies can control the economy. This situation may compromise the economic and political independence of the country. One of the most important examples of this is the oil crisis in Iran and that resulted as political instability and internal turmoil in Iran. As a result of these events, the process of Islamic revolution in Iran accelerated.

Foreign dependency in technology is one of the negative effects caused by foreign capital investments. Foreign companies gather their research and development activities in their headquarters. The fact that host countries do not participate in research activities and that they are forced to constantly import new techniques from abroad means an increase in technological dependence.

Foreign companies obtain raw materials not only from domestic sources, but also from their main centers abroad. Therefore they can increase their foreign exchange expenses with their subsequent profit transfers. This situation causes a serious increase in foreign exchange expenses for the host country.

In Chapter II, the concept of foreign direct investment has been emphasized. In addition, the dimensions of foreign direct investments in terms of both the investors such as multinational companies or foreign country and the host country have been examined. The next section will focus on the economic impact of globalization and its effects on the development of the automotive industry especially in Turkey.

CHAPTER 3
THE DEVELOPMENT IN TURKISH AUTOMOTIVE INDUSTRY WITH GLOBALIZATION

3.1 Introduction to globalization

Globalization means the acceleration of the movements and changes of people, goods and services, capital, technology, or cultural practices all over the world. One of the effects of globalization is that it encourages and increases interactions between different regions and populations around the world.

According to World Health Organization "Globalization, or the increased interconnectedness and interdependence of peoples and countries, is generally understood to include two inter-related elements: the opening of international borders to increasingly fast flows of goods, services, finance, people and ideas; and the changes in institutions and policies at national and international levels that facilitate or promote such flows. Globalization has the potential for both positive and negative effects on development and health."[20]

Globalization triggered by the development in communication technologies has a multidimensional mechanism. The main areas of influence of globalization are economic globalization, political globalization, socio-cultural globalization, and technological globalization. Beyond the cultural and social legs of globalization, there are two basic pillars that are economic and political play a major role in determining international relations. The political formation of globalization expresses the compulsory dependence and cooperation formed in the international arena. On the other side of the coin, economic globalization reveals more power shifting from

[20] Globalization Theory, https://www.who.int/topics/globalization/en/

nation states to multinational financial companies and increasing global economic integration. Political cooperation and economics are integral parts of each other and form the foundations of globalization.

Economic globalization refers to the increasing interdependence of world economies as a result of the growing scale of cross-border trade of commodities and services, flow of international capital and wide and rapid spread of technologies. It reflects the continuing expansion and mutual integration of market frontiers and is an irreversible trend for the economic development in the whole world at the turn of the millennium. The rapid growing significance of information in all types of productive activities and marketization are the two major driving forces for economic globalization.[21]

Multinational companies are among the most important actors of the globalization movement. Today, more than half of the world trade and industrial activities are carried out by multinational companies.[22] As a result of the globalization of economies and the reduction of trade barriers, the number of multinational companies increased rapidly after the Second World War. Most of the multinational companies are based in North America, Europe, Japan, and China, and they transfer resources from developed countries to developing countries. In addition, multinational companies generally have information and resources related to their field of activity while working in other countries. However, when they do not have these resources or because of the legal boards of the countries they invest in, they continue their activities by partnering with the local companies of the country. In this way, they also learn about the laws of the host country, customer habits and living standards.

[21] Shangquan, "Economic Globalization: Trends, Risks and Risk Prevention" 1-8.
[22] World Trade Report 2020, 38.

In recent years, the importance of multinational companies is rapidly increasing with the increase of economic integration on a global scale, the increasing effect of the market economy all over the world, and the acceleration of the liberalization in international trade and financial activities.

When we investigate the effects of foreign capital investments on countries, we understand the importance of their positive effects for host countries. Foreign capital investments are seen as a key element of development, especially for developing countries.[23] When we examine the sectoral distribution of investments of multinational companies in the world, we can say that the movement direction of foreign capital investments is focused on oil, automotive and financial services. As can be seen in the report published by the Fortune Global, we see that the top 10 multinational companies in the global 500 list operate in petroleum & energy, automotive and retailing.

	Company	Sector	Revenue (m)	Country	GDP (m)
1	Walmart	Retailing	$523,964	Sweden	$530,884
2	Sinopec Group	Energy	$407,009	Norway	$403,336
3	State Grid	Energy	$383,906	Israel	$394,652
4	China National Petroleum	Energy	$379,130	Singapore	$372,063
5	Royal Dutch Shell	Energy	$352,106	South Africa	$351,432
6	Saudi Aramco	Energy	$329,784	Colombia	$323,616
7	Volkswagen	Automotive	$282,760	Finland	$269,296
8	BP	Energy	$282,616	Czech Republic	$250,681
9	Amazon	Retailing	$280,522	Portugal	$238,785
10	Toyota Motor	Automotive	$275,288	Greece	$209,853

Figure 4. Comparison of the top 10 multinational companies in the Global 500 list
Source: Fortune Global 500, 2020 & World Bank GDP, 2019

[23] Borensztein et al., "How does foreign direct investment affect economic growth?" 115–135.

In this article, Foreign Direct Investment Investments which is one of the important elements of economic globalization has effects on the development of Turkish automotive industry and the merger sampling of Hyundai and ASSAN companies will be discussed.

3.2 The development of automotive industry with globalization

In the broadest perspective, we can define the term globalization as the interconnection and integration of human activity on a growing global scale. So, what is at the center of these connections? How do these connections trigger each other? The most important of these can be interpreted as the expansion of existing markets with globalization, increase in production with expanding markets, increase in employment, profit, and economic growth with the increase in production. When we look at the historical development of the automotive industry from this perspective, there is a close and strong relationship between the development of the automotive industry and globalization. We can divide the development of the automotive industry into 4 basic periods. These are before the World War I, after the World War II, the period of globalization and the 2000s.

3.2.1 Before the World War I

Automotive industry activities, which have a history of more than a hundred years, initially started with automobile production. During the First World War, it started to produce commercial vehicles and came out of only individual use. The automotive industry has been in a continuous development and change, with the emphasis on automobiles in total production. The first production of a modern car with an internal combustion engine in today's sense was carried out by Karl Benz and

Gottlieh Daimler in 1886 and the use of automobiles spread rapidly in Europe after these years.[24] In 1893, the production of internal combustion engine automobiles started in America and its production and usage increased gradually. The number of automobile brands worldwide reached from 8 in 1880 to 50 in 1885 and to 500 in 1890. Considering that these tools are made in small workshops with simple processing tools, non-standard and based on labor, it is understood that they have shown a rapid development in the beginning years.

The production of standard sizes and large quantities, developed under the leadership of the automotive industry and deeply affecting all industries, started with Henry Ford's Model T car production. A low-cost production has been achieved with the production of large quantities of vehicles carried out by analyzing the broad market opportunities well.

	Germany	France	Italy	UK	USA	Japan	Others	Total
1900	2	3	0	0	4	0	0	9
1905	16	22	0	0	25	0	0	63
1910	13	38	0	14	187	0	3	255
1915	0	0	15	0	970	0	30	1.015
1920	0	40	21	0	2.227	0	94	2.382
1930	71	230	46	237	3.363	1	186	4.134
1940	72	0	0	134	4.513	51	172	4.942
1950	306	358	128	784	8.006	82	914	10.578

Figure 5. World motor vehicle production by years (x 1000)
Source: OSD-Otomotiv Sanayi Derneği, 2010

These automobiles produced by mass production technique constituted 90-95% of the vehicles in the USA in 1920 and 50% of all vehicles in the global market.

[24] History of Automotive Evolution, https://www.cs.mcgill.ca/Road-transport

Commercial vehicle production was realized in the following years compared to automobile production. For example, truck production started during the First World War. Therefore, we can say that the world automotive industry showed a very rapid growth until the second world war. As seen in Table 5, the production, which was 9,000 pieces in 1900, mainly in France and the USA, however it was over 1,000,000 pieces in 1915 with the increase in demand due to the low price advantage provided by mass production in the following years.

	Germany	France	Italy	UK	USA	Japan	Others	Total
1900	22%	33%	0%	0%	44%	0%	0%	100%
1905	25%	35%	0%	0%	40%	0%	0%	100%
1910	5%	15%	0%	5%	73%	0%	1%	100%
1915	0%	0%	1%	0%	96%	0%	3%	100%
1920	0%	2%	1%	0%	93%	0%	4%	100%
1930	2%	6%	1%	6%	81%	0%	4%	100%
1940	1%	0%	0%	3%	91%	1%	3%	100%
1950	3%	3%	1%	7%	76%	1%	9%	100%

Figure 6. Distribution of world motor vehicle production by countries in years
Source: OSD-Otomotiv Sanayi Derneği, 2010

3.2.2 After the World War II

Until 1950, more than 80% of the motor vehicle production in the world was carried out under the leadership of the USA, especially during the First and Second World War years. By the 1950s, European countries saw themselves as a part of the game in motor vehicle production. In 1960, the share of the USA in total production decreased to 47.9%, the production share of Germany reached 12.5%, the United Kingdom reached 11% and France's 8.3%.

After 1960, Japan has shown a very rapid development in the automotive industry. After World War II, Japan has reached an important point in the automotive industry. It is very important to understand the automotive industry to dwell on this rapid development of the Japanese automotive industry. Three basic concepts played an important role in the development of the Japanese automotive industry. These are Japanese businesses called Keiretsu, the Lean Manufacturing model developed by Toyota Motor Company engineer Taiichi Ohno, and a form of quality management called *Kaizen*.

Keiretsu is the general definition of a group of interrelated companies linked to each other by cross shareholding, centered on a trading company or a bank.[25] Keiretsu system can also be defined as a business network established between manufacturers, supply chain partners, distributors and even financiers who are financially independent but work together to ensure mutual gain and support the established network.

[25] Lincoln et al., "Keiretsu Networks and Corporate Performance in Japan." 67.

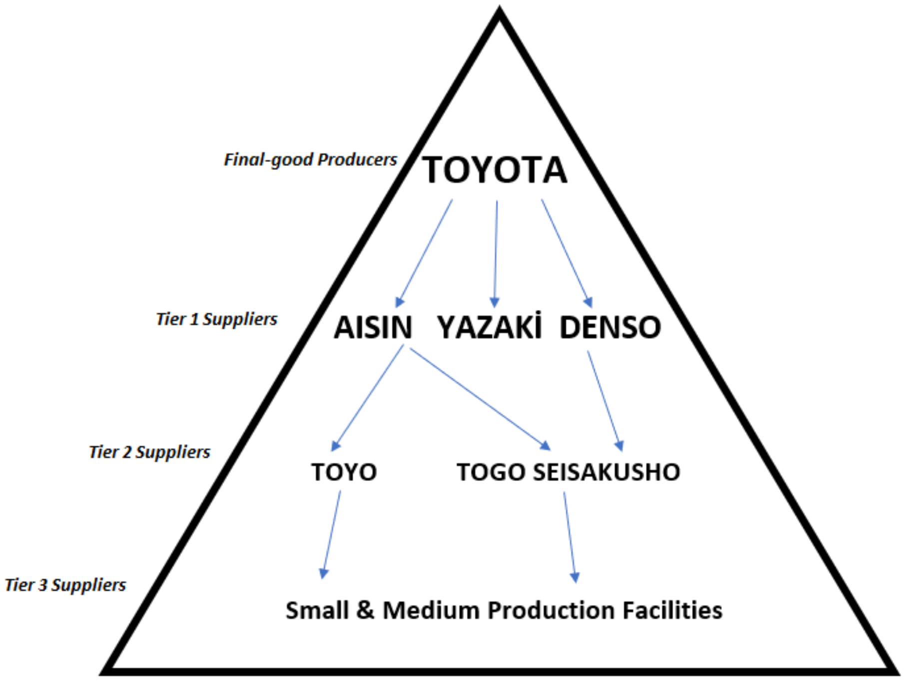

Figure 7. Toyota Motor Company supplier structure by Keiretsu model
Source: www.toyota-global.com, 2020

For example, Toyota Motor Company works with companies on the Keiretsu platform while supplying the raw materials and automotive sub-industry parts it needs to produce motor vehicles. Thanks to the Keiretsu system, both the supply chain is ensured at the optimum level and the companies on the same platform grow together. As we will see in Figure 7, we will focus on the Keiretsu system with the example of Toyota Motor Company's supply chain organization structure.

As can be seen in the figure above, Toyota Motor Company has partnerships in 1st chain suppliers. There is close cooperation and capital partnerships with these companies. For example, AISIN is an automotive parts manufacturer based in Japan. The company was founded in 1949 and is part of the Toyota Group. Aisin Seiki supplies engine, powertrain, body and chassis parts for many OEMs. This structure used by Toyota provides the companies with the possibility of mutual growth and accelerated the growth of Japan in the automotive sector. This system used by Japan became widespread in South Korea in the post-Korean War period, and together with companies called Zaibatsu, it prepared the infrastructure for rapid development and progress in both the automotive sector and the heavy industry sector.

One of the important factors behind Japan's success in the global automotive industry, which has been on the rise since the early 1960s, is the lean manufacturing process. Lean manufacturing has become the most used word in the field of production even in today's world. The concept of lean manufacturing originated in Japan after World War II, when Japanese manufacturers realized they could not afford the huge investment required to build facilities like those in the United States. The Japanese, especially Toyota, initiated the process of developing and improving long production processes to minimize waste in all aspects of operations.[26] It is clearly accepted that organizations that specialize in lean manufacturing methods even today have significant cost and quality advantages compared to those that practice traditional mass production.[27] The goal of lean manufacturing is to produce world-class quality products in the most efficient and economical way, while reducing human labor, inventory, time to market, and waste in production in order to be extremely sensitive to customer demand.[28] The benefits of lean manufacturing are evident in factories around the world. It shows serious improvements in key performance indicators of factories such as employee productivity, production and process quality, net income, and on-time delivery.

Another important philosophy behind the development of Japan in automotive manufacturing is Kaizen. In the management literature, it often states that

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[26] Thompson et al., "Lean manufacturing" 2-8.
[27] Fleischer et al., "Concurrent Engineering Effectiveness", 6-14.
[28] Todd, "Lean manufacturing: building the lean machine" 12-16.

"kaizen" thinking and the process improvement ability of the workforce are key factors in the success of Japanese industry.[29]

Kaizen is one of the main elements of the lean manufacturing philosophy, which is one of the most important factors in the development of the Japanese automotive industry. It refers to continuous improvement activities that cover all employees in an institution. Kaizen applications should be compatible with goals such as facilitating work, making work safer and more productive, improving product quality, and saving time and cost.

The concept of Kaizen, which is still used at Toyota Motor Company, is explained on the Toyota official site as follows: "Kaizen is the basis of continuous improvement. It is a way of thinking that encourages and encourages people to identify where and how they can detect even small changes that will benefit the company, their team or their own personal performance."[30]

After the Second World War, we can say that the extraordinary development and rise of the Japanese automotive industry was the factor affecting the shifting of world motor vehicle production to the Far East countries, especially to Japan, and the decrease in the USA's share in production. We have also mentioned above the underlying reasons for the development of the Japanese automotive industry.

3.2.3 The period of globalization

In the 1980s, the impact of globalization on the automotive industry has increased. In the 1960s and 1970s, Japanese and European automakers began entering the United States market through export. This situation caused a decrease in

[29] Utterback, "Mastering the Dynamics of Innovation" 32-34.

[30] Brunet et al., "Kaizen in Japan: an empirical study", 1426–1446.

the sales and production of domestic vehicles in the US domestic market. However, the situation that most affected the global automotive market after 1980 was the first oil crisis in 1973. The start of the 1973 oil crisis which was one of the first damages to the global world economic system was the increase in oil prices by OPEC countries.[31] After the 1967 Arab-Israel war, the Arabs planned to put Western countries in a political and economic difficult situation by using their pledge over oil in order to reclaim their lost territories. Arabs had two options on their hands. The first was to reduce oil production and the second was to increase the price of oil. The first global oil crisis occurred with the Arab countries using the option to increase the price of oil.[32]

As can be seen in Figure 8, we analyze the barrel oil price changes with adjusted inflation according to 2021. In Figure 8, we can clearly understand the effects of the 1973 oil crisis on the annual changes in crude oil barrel prices. After the 1973 oil crisis, profound changes occurred in global motor vehicle production. The three largest automotive manufacturers of the USA that are Ford, General Motors and Chrysler which are called Big Three, have differentiated in vehicle production and the automotive class offered to the market.

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[31] Kessels, "Energy management for automotive power nets", 84.
[32] Licklider, "The Power of Oil: The Arab Oil Weapon and the Netherlands, the United Kingdom, Canada, Japan, and the United States.", 205.

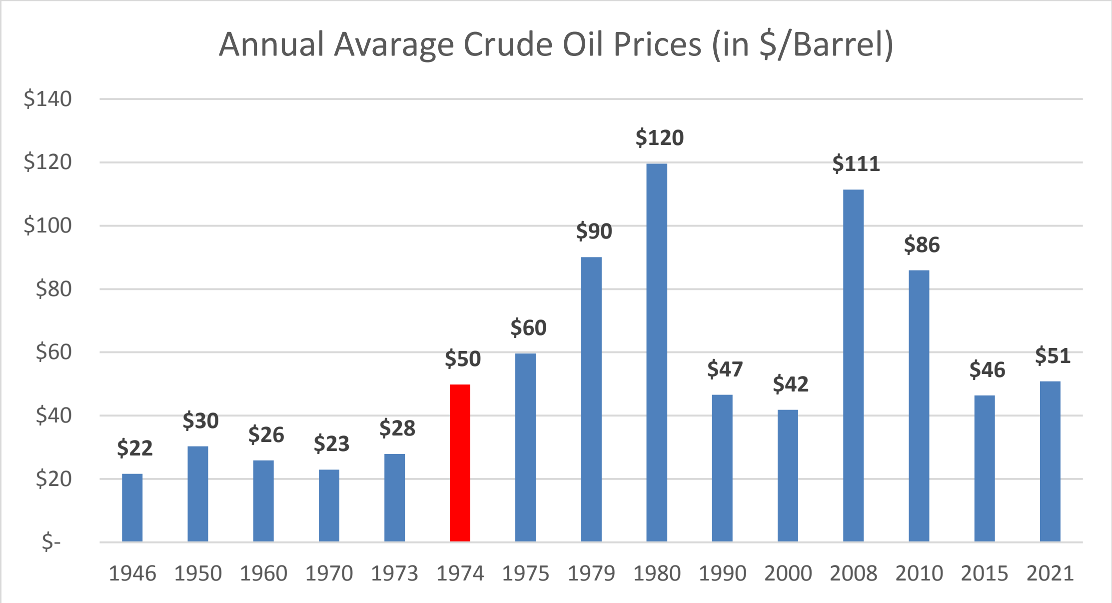

Figure 8. Annual average crude oil prices in inflation adjusted as of Feb 2021
Source: Inflationdata.com, 2021

The oil and energy need of Western countries with developed industry and infrastructure was increasing every year. With the increase in the price of oil, which is the primary energy source of the automotive industry, serious changes have occurred in the US market. In the global automotive market, especially in the United States, the process of widespread use of smaller motorized and energy-saving vehicles began.

	Germany	France	Italy	UK	USA	Japan	Others	Total
1980	3.879	3.378	1.612	1.313	8.010	11.043	9.330	38.565
1990	4.977	3.769	2.121	1.566	9.783	13.487	12.852	48.555
1995	4.667	3.475	1.667	1.765	11.986	10.196	16.227	49.983
1997	5.023	2.577	1.815	1.940	12.131	10.975	20.544	55.005
2000	5.198	3.351	1.738	1.817	12.810	10.145	22.479	57.538

Figure 9. World motor vehicle production by years (x 1000)
Source: OSD - Otomotiv Sanayi Derneği, 2010

During this period, American vehicle manufacturers made a serious attempt to enter the small car market. However, Japanese, and European vehicle manufacturers had already more experienced in small vehicle production and their facilities were suitable for this type of vehicle production.[33]

	Germany	France	Italy	UK	USA	Japan	Others	Total
1980	10%	9%	4%	3%	21%	29%	24%	100%
1990	10%	8%	4%	3%	20%	28%	26%	100%
1995	9%	7%	3%	4%	24%	20%	32%	100%
1997	9%	5%	3%	4%	22%	20%	37%	100%
2000	9%	6%	3%	3%	22%	18%	39%	100%

Figure 10. Distribution of world motor vehicle production by countries in years
Source: OSD - Otomotiv Sanayi Derneği, 2010

We see that the 1973 oil crisis was an important milestone for the automotive industry. As we can see in Table 10, Japan has become the main center of world motor vehicle production since 1980. When we look at it from a macro perspective, motor vehicle production has moved away from the US monopoly and started to be centered in Far East Asia and Europe. With globalization, many vehicle manufacturers have turned into a multinational company structure. Although the headquarters and development units of these multinational automotive companies are in developed countries however, South East Asia, especially Vietnam and Malaysia and Eastern European countries have become the main centers of the assembly industry. Turkey is among the countries where the automotive assembly industry has developed. The assembly industry which started to gain momentum in the 1960s in

[33] Shimokawa, "Japan and the global automotive industry.", 64-70

Turkey developed with 10-year economic development plans and incentives that have given to multinational automotive company.

With globalization and the establishment of assembly lines and factories for motor vehicle production by multinational companies in Turkey, direct foreign capital investments have also started in the automotive industry.

3.2.4 Automotive industry in the 2000's

The automotive industry has become one of the most important economic fields in the 2000s. The automotive sector, which has developed with many industries and it has also increased its impact on the global economy as multinational automotive manufacturers shifted their production to emerging countries in order to increase their profits. It has become an important industry in the 2000s for developing countries in order to achieve their economic growth with the direct foreign capital supports they received. In 1997, Europe, Japan, and the USA represented just over three quarters of global automobile production. This figure had declined to approximately half by 2009, partly due to increasing market share of companies in Brazil, Russia, India and China.[34]

[34] Bailey et al., "Global restructuring and the auto industry.", 311–318.

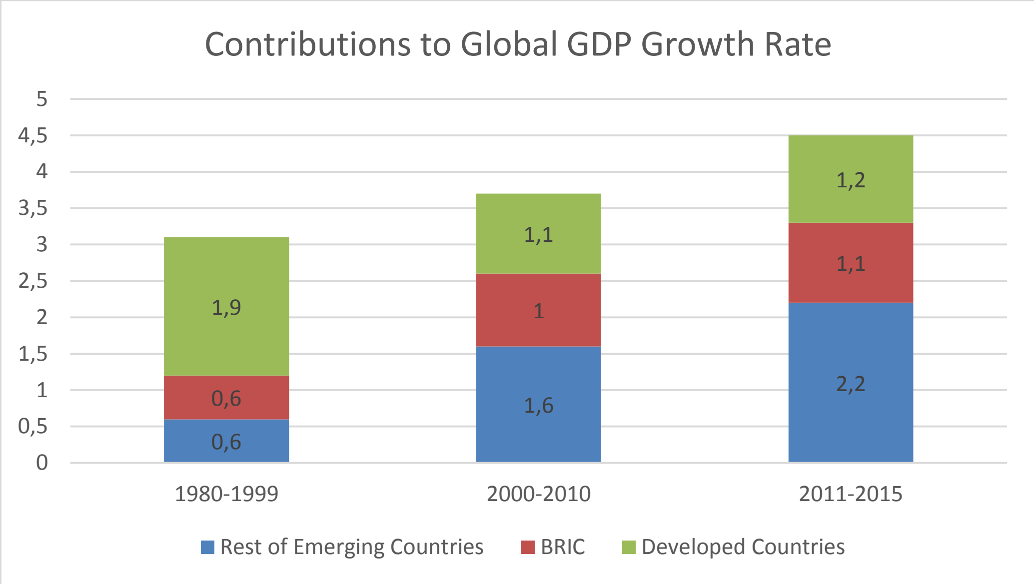

Figure 11. Contributions to global GDP growth rate
Source: Based on data from www.worldbank.org

With the disintegration of Yugoslavia and the USSR in the early 1990s, a serious market was formed in Eastern Europe especially Russia. Russia has gained an important position with the domestic market demand that emerged in the transition to the liberal economy after the socialist policies. On the other hand, production facilities shifted to East Europe instead Western Europe due to cheap labor, advantageous geographical location, advanced industrial infrastructure facilities, and human potential with engineering knowledge.

In addition, China's transition to an open economy brought about an expansion in the far east market. Due to the increasing demand in domestic market for motor vehicles, China has become one of the automotive production centers. China has experienced a particularly substantial growth in its share of the global automobile market, rising from 3% in 1997 to 22% in 2009, making it the world’s largest car manufacturing country.[35] Chinese car companies are developing the

[35] International Monetary Institute, “The internationalization of the renminbi.”, 48-60

capacity to undertake complex R&D and assembly functions, and they are likely to become an even more formidable force in the years to come.

On the other hand, India has become one of the developing economies with its large population, cheap labor force and the advantage of skilled workers. Thanks to their advantages, the rise of the automotive industry in India has emerged. Some of the established car brands are now under the ownership of firms in emerging economies, for example the Jaguar Land Rover was acquired by Indian manufacturer Tata.

As a result of the expansion of the South American automotive market and increasing demands in continent, Brazil which has the largest economy in the continent, stood out among other countries. Brazil, which is a country with accelerated economic growth, cheap labor and high human potential, has been the leading economy of South America in the 2000s. This situation continued as many multinational companies increased their investments in Brazil industry. A significant share of these investments was taken by the automotive industry and its subsidiary industry.

These countries are named as BRIC in literature and have been the most important developing economies in the 2000s. The rise of the BRIC nations' automotive industries has partly been facilitated by the growing per capita incomes, sustained improvement in road and transportation infrastructure and mass production of all types of vehicles.[36]

In addition to new key players entering the global automobile industry, the other major development in recent years is the resurgence of the popularity of the electric car. Due to the global climate crisis, the importance of vehicles with electric

[36] Myopi, "The impact of the "BRIC Thesis" and the rise of emerging economies on global competitive advantage: Will there be a shift from West to East?", 36–47.

and hybrid technologies has been increasing in recent years. Almost all brands make significant R&D investments for the development of electric or hybrid models. The market value of TESLA, the world's most important electric vehicle manufacturer, is more than the total market value of many multinational vehicle manufacturers.[37] This gives a hint that the trends in the upcoming period and the market will take shape on electric, hybrid and autonomous vehicles.

3.3 The development of automotive industry in Turkey

In the 21st century, Turkish automotive industry which is exporting to more than 150 countries is a dominant sector in the Turkish economy. The automotive sector, which has strong relationship with many sectors, takes also important place in terms of the sustainability and growth of the Turkish economy. The automotive industry in Turkey has made significant progress over the years after it started with the activities in the 1960s. Especially the knowledge and experience gained in production, marketing and sales have carried the sector forward. When automotive manufacturers and sub-industry manufacturers combine their knowledge and experience with their partnerships with foreign capital investments, proximity to strategic markets, cost advantage, technology and production capacities, the Turkish automotive industry has reached a highly competitive position in the world.[38]

Policies implemented in the 1960s to encourage the development of both the main industry and sub-industries for automobile production has created a positive atmosphere in the sector.[39] In the 1970s, localization plans for the production of automobile main parts and sub-industry parts were emphasized.

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[37] Strauss et al., "Buying on rumors: how financial news flows affect the share price of Tesla", 593-607
[38] Pehlivanoğlu et al., "Türkiye Otomotiv Piyasasında Arz Şokları: 1963-2012 Dönemi", 589-612.
[39] Yaşar, "Türkiye'de Otomotiv Ana ve Yan Sanayi ve Marmara Bölgesi'nde Kümelenme", 779-805.

The growth in the automotive sector in Turkey has accelerated after the 1990s. After Turkey joined the Customs Union in 1996, foreign capital investments of multinational automotive companies in the Turkish automotive sector have increased. Other reasons that affect the increase of investments; cheap labor, the geopolitical position of the country, the existence of a dynamic market structure that is open to development and growing rapidly.[40]

The automotive industry, which developed with the effect of these factors, became one of the global production and export centers, especially in the 2000-2010 period. The annual production amount, which was approximately 10 thousand in the 1960s, exceeded 100 thousand in the 1970s, 200 thousand in the 1980s, and 400 thousand in 1993. Today, Turkey has become one of Europe's leading producers with an annual production amount of over 1 million units.[41]

We can examine the development process of the Turkish automotive industry from the beginning to the present in 5 basic periods,

- *Assembly Period*: Production of commercial vehicles and tractors in the form of assembly in the 1960s
- *Domestic Production Period*: Production of automotive parts for the purpose of localization in the 1970s
- *Technology Investments*: Technology investments made to increase capacity in the 1980s
- *Globalization Period*: Restructuring for integration with the EU and global competition in the 1990s

[40] Engin et al., "Türk Otomotiv Sektörü ve Küresel Finansal Krizin Sektöre Etkileri", 35-43.
[41] Otomotiv Sanayi Derneği, "2010 yılı Raporu", 8-13.

- *Sustainable Growth Period*: Creating higher added value through design and production activities in 2000s

General Information on the Automotive Manufacturers - 2020

Company	Production Place	Starting Year of Production	Licence	Foreign Capital %	Production Capacity (2020)
TÜRK TRAKTÖR	ANKARA	1954	NEW HOLLAND	38%	50.000
OTOKAR	SAKARYA	1963	OTOKAR	0%	10.300
ANADOLU ISUZU	KOCAELİ	1966	ISUZU	30%	19.012
KARSAN	BURSA	1966	HYUNDAI MOTOR CO.	0%	59.610
MAN TÜRKİYE	ANKARA	1966	MAN TRUCK & BUS SE	100%	3.900
MERCEDES BENZ TÜRKİYE	ISTANBUL / SAKARYA	1968	MERCEDES BENZ	85%	19.450
OYAK RENAULT	BURSA	1971	RENAULT	51%	378.000
TOFAŞ	BURSA	1971	FIAT	38%	450.000
FORD OTOSAN	ESKİŞEHİR / KOCAELİ	1983	FORD	41%	455.000
TEMSA	ADANA	1987	TEMSA	100%	10.500
TOYOTA	SAKARYA	1994	TOYOTA	100%	280.000
HONDA TÜRKİYE	KOCAELİ	1997	HONDA MOTOR	100%	50.000
HYUNDAI ASSAN	KOCAELİ	1997	HYUNDAI MOTOR CO.	70%	245.000
HATTAT TRAKTÖR	TEKİRDAĞ	2002	HATTAT	0%	25.000

Figure 12. General information on the automotive manufacturers in Turkey (2020)
Source: OSD - Otomotiv Sanayi Derneği, 2020

3.3.1 Assembly period

The first domestic automobile made in Turkey was produced in 1961. The car produced by Turkish engineers was named “Devrim”. The production of this car, which is of great importance in terms of domestic mobile production, was limited to 4 prototypes. Later, the serial production phase could not be started. The first automobile to be mass produced in 1966 started with the car called “Anadol”.

Annual automobile production was at most 7,200 units and a total of 87,000 units were produced until 1982.[42]

Turkish economy is examined between 1962-1976, it is seen that it is a structure that supports production to the domestic market for the automotive industry. It is observed that economic policies preventing imports and supporting the consumption of domestic produced goods are being implemented. The establishment of the Turkish Automotive Industry, which started in the 1960s, coincides with a period in which "import substitution" policies were implemented. However, obstructions in foreign trade due to the policies applied in the economy have limited and made the import of these cars difficult. This situation encouraged domestic automotive production with the help of international companies. However, domestic production was designed only for assembly. In the first years, the automotive industry was designed completely for the domestic market. The State Planning Organization was established in 1960 for the development of the economy and planned progress. First Five-Year Development Plan between the years 1963-1967 is examined, it is seen that the establishment and development of the Turkish automotive industry is emphasized. The Automotive Industry was one of the driving forces in the economy, so the "Assembly Industry Instruction" given at that time played an important role in the development of the automotive industry.[43]

In 1964, there were companies such as Chrysler, Willys Verdi, and Otokar producing trucks, vans, and buses in the automotive assembly industry in Turkey. Between 1965 and 1967, a great dynamism came to the assembly industry and new manufacturers appeared. Many local companies made joint venture with multinational companies. Anadolu Group started producing trucks with ISUZU

[42] Ceylan, "Küreselleşmenin Sektörel Etkileri Araştırma Projesi", 340.
[43] T.C Kalkınma Bakanlığı, "Kalkınma Planı, Birinci Beş Yıl 1963-1967", 348-351.

brand, Otoyol brand produced Iveco trucks, and Mercedes started bus production. TOFAŞ was established in 1968. Then, TOFAŞ factory was opened in Bursa to produce automobiles with the license of the Italian Fiat group. In 1969, with the partnership of OYAK and Renault, it was decided to establish a factory in Bursa to produce Renault brand automobiles.

3.3.2 Domestic production period

In the Second Five-Year Development Plan, which was implemented between 1968 and 1972, it was required to switch to domestic production in the automotive industry. Arrangements were made to make the engine and mechanical parts domestic and foreign investments were strictly controlled. In the 1970s, the Automotive Industry started to develop and find its own identity. In 1970, different developments occurred and small-scale investments for automobiles started. Despite this, raw materials and sub-industry products were insufficient.[44]

During the Third Five-Year Development Plan period between 1973-1977, the State Planning Organization was in close cooperation with the Automotive Industry and increased the efficiency of the automotive industry in the country's economy.[45] During this period, import substitution policies were predominantly based on imported raw materials. Turkey's trade targets and limits in those years suffered serious losses after the first crude oil crisis in the 1973-1974 period.

In the fourth Five-Year Development Plan covering the years 1978-1982, regulations were implemented in order to minimize the foreign dependency of the Turkish Automotive Industry. Ideas have emerged that especially the main and sub-

[44] Ceylan, "Küreselleşmenin Sektörel Etkileri Araştırma Projesi", 340.
[45] Türkiye Cumhuriyeti Merkez Bankası, "Küreselleşmenin Türkiye Ekonomisine Etkileri", 5.

industries should be directed towards exports, and that the industry should develop. However, due to the inability to find solutions to the problems in the economy, it is seen that there are significant regressions in both production and demand in the first three years of the plan, contrary to the targets.[46]

3.3.3 Technology investment

The automotive industry is a main industry that directly or indirectly affects many sectors closely and requires high engineering knowledge and technology. More than 5000 parts are needed in terms of material quality, material structure and product technologies in the production process.[47]

TOFAŞ and OYAK Renault plants were established in Bursa in respectively 1968 and 1969 due to its geostrategic location and transportation advantages. These investments are among the most important milestones for the future development of the Turkish Automotive Industry. Employee disputes in the early 1980s, political turmoil caused by the 1981 military coup, high inflation and shrinkage caused by price increases were against the Automotive Industry. For this reason, new laws and regulations have begun to be made concerning the industry and economy of the country.

In 1983, the "Assembly Industry Regulation" was abolished and replaced by the "Manufacturing Industry Regulation" in order to open up the Turkish Industry to the outside and increase its competitiveness. The aim of these applications was to bring existing industrial companies to a level that can compete with foreign countries in terms of price and quality, and to maximize foreign exchange savings and

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[46] Küçükerman, "Türk Otomobiliyle 50 Yıl", 42-56.
[47] Ceylan, "Küreselleşmenin Sektörel Etkileri Araştırma Projesi", 341.

earnings. Depending on this application, a production project has been prepared in advance for each vehicle to be produced in Turkey. Thus, the Turkish Automotive Industry started investments. In 1985-1989, the entry of foreign capital was allowed, and exports were encouraged.[48]

In the period of the Fourth Five-Year Development Plan, in which the transition to a market economy was aimed, the focus was on the Automotive Industry's orientation towards advanced technology that can compete with international standards. During this period, it was desired to initiate and expand research and development studies in the Automotive Industry.

3.3.4 Globalization period

In the 1990s, innovations and techniques were used in the field of production in the automotive industry. With the signing of the Customs Union in 1996, it was aimed to transition to a perfect competition environment in the Turkish automotive sector. In addition, a quality management system has been established in the sector and companies have been given competence and production equivalence certificates by international organizations. Thus, the automotive sector has been restructured. With this structuring, an important step has been taken in the automotive industry.[49]

With the completion of the Customs Union between the EU and Turkey in 1996, significant structural changes occurred in the Turkish automotive industry. In accordance with the agreement, Customs tariffs were abolished, and common tariff rates were applied with non-union countries.[50]

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48 Azcanlı, "Türk Otomotiv Sanayinin Tarihsel Gelişimi", 242.
49 İstanbul Ticaret Odası, "Avrupa Birliği'ne Uyum Sürecinde Otomotiv Sektörü Rehberi", 65-82
50 Taşkın, 2000'lerde Türk Otomotiv Sektörü içinde: Gümrük Birliği ve Türkiye Sanayisi Üzerine Etkileri, 103-120.

Another effect of the Customs Union is the increase in investments of third country companies in Turkey as a result of the integration with the EU. We can say that foreign capital investments in this field are gaining momentum.[51]

The 1990s were a period in which the Turkish economy began to globalize and import and export controls declined. The 1990s, when multinational companies increased their foreign capital investments, was an important period in the Turkish automotive industry. Many multinational companies made direct investments in Turkey during this period. Sabancı Holding has made an agreement with the Japanese motor vehicle giant Toyota. The ASSAN company of Kibar Holding, which has an important place in aluminum production, has also cooperated with the South Korean Hyundai company. In the same period, the Japanese company Honda Motors established a factory in Turkey.

Along with all these positive developments, the 1997 Asian Financial Crisis, the 1999 Marmara Earthquake and the 2001 economic crisis negatively affected both the national economy and the Turkish automotive industry. In addition to these, the Customs Union has also had a negative effect on the sector. With the reduction of taxes to zero in 1996, the introduction of vehicles of various models, scales and prices into the market negatively affected domestic production in the Turkish automotive industry, and the share of imports increased in order to meet the increasing domestic demand.[52]

According to the table, significant changes have occurred in the market shares of the automotive sector. In 1997, there was a significant increase in the total

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[51] Yeltin et al., "Gümrük Birliği Çerçevesinde Avrupa Birliği ve Türkiye'de Otomotiv Sektörü", 24-67.
[52] Uçan et al., "Türkiye'de Otomotiv Sektörü Dış Ticaretinin Gelişimi", 115-132.

market share and import rates compared to 1996. The reason for this increase in 1997 is due to the reductions in customs tax rates as a result of the Customs Union agreement signed in 1996. The reason for the increase in imports in 1999 and 2000 is the uncertainty in production and loss of work force, which occurred as a result of the Marmara Earthquake in the summer of 1999. The decrease in the total market share in 2001 was due to the lack of liquidity that occurred as a result of the 2001 economic crisis.

Total Market Share Figures on Automobile and Commercial Vehicles (x1000)						
	1996	1997	1998	1999	2000	2001
Total	337	525	481	401	657	195
Export	94	210	183	175	342	94
Export %	28%	40%	38%	44%	52%	48%

Figure 13. Total market share results between 1996 and 2001 (x1000)
Source: OSD - Otomotiv Sanayi Derneği, 2020

3.3.5 Sustainable growth period

Along with the 2000s, the Turkish automotive industry can be considered as a period in which the fruits of the investments made in the early periods were harvested. Turkey has become an important country for multinational companies with the participation to the Customs Union in 1996, full integration with the EU in the fields of industry and trade, increased knowledge in the automotive sector, and the development of sub-industry activities. Automotive industry investments were encouraged with the Eighth and Ninth Five-Year Development Plans.

The economic crises of 2000 and 2001 deeply affected the Turkish automotive industry. While motor vehicle production was 468 thousand in 2000, it decreased to 357 thousand in 2001. In 2003, production increased again and reached 562 thousand, and the crisis in the sector was significantly overcome. Despite the mentioned negative picture, Ford Otosan company started automobile and minibus production in Kocaeli in 2001. In 2002, Hattat Tarım started the production of Tractors and Agricultural vehicles in Tekirdağ.

In addition to that, highly qualified manpower, who has been trained with intensive training programs since the 2000s, is the most important basis of the competitive power in the sector. The strength of the foreign partners in the sector in the world markets, the technological knowledge reached, and the existence of a quality management system proven by international certification are indicators of the level of competition achieved in the sector.[53]

Automotive subsidiary industry has reached a level that can meet at least 80% of the spare parts required for vehicles manufactured in Turkey, in terms of product production capacity, product variety and the standards it has reached.[54]

In the 5-Year Development Plans which were made by the State Planning Organization after 2000, it is stated that "The physical infrastructure needs of the enterprises will be met, networking and clustering initiatives will be supported". "Establishing enterprises in designated industrial zones and moving the existing ones to these areas will be encouraged." It was decided to speed up the industrial zones and clustering initiatives. Supporting clustering efforts in our country has been adopted as a principle.

[53] DPT, “Karayolu Taşıtları İmalat Sanayi Özel İhtisas Komisyonu Raporu”, 44
[54] Sönmez et al., ”Otomotiv ana ve yan sanayi”, 124-145.

Production and Exports in Turkish Automotive Industry after 2003			
	Total Production	Export	Export %
2003	563.450	358.745	64%
2004	864.073	518.595	60%
2005	916.062	561.078	61%
2006	1.026.427	706.402	69%
2007	1.132.951	829.879	73%
2008	1.171.917	920.763	79%
2009	884.446	637.855	72%
2010	1.124.982	763.670	68%
2011	1.234.637	801.112	65%
2012	1.115.233	745.354	67%
2013	1.166.043	839.725	72%
2014	1.218.848	902.049	74%
2015	1.410.034	1.007.355	71%
2016	1.536.673	1.155.067	75%
2017	1.749.572	1.346.075	77%
2018	1.587.836	1.334.326	84%
2019	1.485.143	1.268.677	85%

Figure 14. Production and exports in Turkish automotive industry after 2003
Source: OSD - Otomotiv Sanayi Derneği, 2020

When the production and export amounts realized in the 2003-2019 period are analyzed in Figure 14, it is seen that production and exports have increased since 2003, the production and export rate have decreased after the economic crisis in 2008, however, the values have started to increase as of 2010. In 2018 and 2019, we can say that more than 80% of the vehicles produced in Turkey were exported and they provided great support to the economy.

As of 2018, Turkey has formed a consortium of leading companies in the country to produce its own domestic and electric cars. The domestic car to be produced by this consolidated company called TOGG was launched on 28 June 2018. The companies in this consortium are respectively Anadolu Group, BMC, KARSAN, Turkcell, and Zorlu Holding. According to the planning, the first prototype was prepared in 2019. The first vehicle will be produced in 2021.

In the third part, we examined the development of the automotive industry in the world and in Turkey and the factors affecting this development. In section 4, we will examine the joint venture example of Hyundai and ASSAN companies and we will examine the foreign capital investment made in Turkey and its impact on the automotive sector.

CHAPTER 4

INVESTMENT MODEL OF HYUNDAI MOTOR COMPANY IN TURKEY

4.1 Korean automotive industry and Chaebol

The automobile industry is often regarded as an important measure for measuring a country's industrial level, as it creates a great added value to a country's economy. Today, South Korea has been labeled as one of the world's most advanced and sophisticated automobile producing countries, along with other developed economies such as the USA, Japan and Germany. The Korean auto industry is the 5th largest country in the world in terms of production volume in 2020 and the sixth largest in vehicle export volume.[55]

The history of the Korean automotive industry began in the mid-1960s. It started with the establishment of Shinjin Motors (today Daewoo) in 1965. Hyundai Motors Company was founded a few years later, in 1967. It then grew with the inclusion of Ssangyong and Samsung in the automotive industry. Korean governments have engaged in encouraging and supportive activities against the automotive industry for the growth and diversification of the South Korean economy. It has always had authority over which companies can operate in the automotive industry and the scale of their activities. The Keiretsu structuring, which is an example of the growth of the Japanese automotive industry, has also been tried to be prepared for the South Korean automotive industry. The markets and expansion opportunities to be given to this group of companies, called Chaebol, have been determined by the Korean government. In the last fifty years, starting from the

[55] https://www.statista.com/topics/5249/automotive-industry-in-south-korea/#topicHeader__wrapper

1970s, South Korea's automotive industry has grown from a government-controlled narrow-scope industry to a major player in global markets.

The Korean government gave importance to domestic production and industrialization during the establishment of the automotive industry. The Korean automotive industry was formed with the government-controlled Chaebol groups. The Korean automotive industry establishment plan was determined to focus first on the domestic market and then move on to exports. In this plan and direction, the domestic Korean automotive industry was ready to be established. Uncertainties between market determination and production segments between Chaebol groups have been resolved by the Korean government. With the structural reforms determined by the Korean government, the Korean automotive industry was divided among Chaebol groups and the business structure was determined. Each vehicle manufacturer wanted its own sub-industry and supply chain, and the production and supply chain would mostly be within Chaebol. For this reason, the sub-industry and parts supply has been established between local companies and Chaebol groups.

However, Korea also went through the process of other countries planning to establish an automotive industry. Korea also had to benefit mainly from foreign technology, education and foreign intermediate inputs. Although the Korean automotive industry, which is under the management of Chaebol groups, tried to stay away from foreign investment and connections, this situation could last up to 20 years from the establishment of the industry. US General Motors and Shinjin Motors (Daewoo) merged with 50% joint venture. Following this, a new era began in the South Korean automotive industry.

The South Korean auto industry is characterized by large investments in new model development and manufacturing facilities. This feature is more similar to the

US, Japan and Germany than the automobile industries in Turkey, Canada, Spain, India and China. The automobile manufacturers in the countries mentioned in the second group mainly consist of organizations that produce with parts of models developed by main companies located in another country and usually have assembly facilities. In contrast to this situation, all car manufacturers in South Korea are headquartered in South Korea, and most of the new product development and research and development activities are carried out in South Korea.[56]

Automotive Industry is one of the best ways to create a great economy. Manufacturing a standard vehicle requires more than 20,000 parts, which play a vital role in the development of the economy and job creation in a country. Besides, since the automotive industry is a technology-intensive industry, many different technologies developed in other industries can be widely used in this industry. Hence, it is the backbone of many countries' economies.

By the 2000s, South Korea emerged as one of the most popular and attractive destinations for the global auto parts industry, as its strategy in the automotive industry is positioned between high-tech and high-cost Japan and developing low-cost China. The ideal balance between cost and quality compared to its competitors can be said to be the biggest advantage South Korea has in global competition.

4.2 The history of Hyundai Motor Company

Hyundai was founded in 1947 as an Engineering and Construction Company. After South Korea's liberation from the Japanese occupation in 1945, the company received major construction contracts by the government. Hyundai was responsible

[56] Sung Joon Hong, “The Study of the internationalization of the Korean Automobile industry”, 12-45.

for building most of the country's transport infrastructure as the country industrialized rapidly.

Hyundai Motor Company was founded in 1967. Hyundai Motor Company established the Ulsan assembly plant. Today, the Ulsan factory, the world's largest integrated automobile manufacturing facility, has a production capacity of 1.6 million vehicles per year. In 1968, the first vehicle was produced by Hyundai at the Ulsan plant in cooperation with Ford Motor Company. The success of the Cortina, the first vehicle to be produced, and its popularity in the European market completely changed Hyundai's future strategy. Following this success, Hyundai decided to develop its own car.

In 1974, in line with the goal of globalization, Hyundai Motor Company started recruiting successful professional managers from Europe and America and started the integration process with Western manufacturers. As a product of these initiatives and their own vehicle manufacturing strategy, they created the Hyundai Pony in 1975. The Hyundai Pony is the first mass-produced South Korean car and has been Hyundai's flagship for many years. When it came to 1976, Hyundai Pony started to make its first exports. Thus, Hyundai took the first step in its strategy to become a player in the global market. The first exports started with Chile, Argentina, Colombia, and Egypt. European exports to Belgium and the Netherlands started in 1978.

It was very important for the automobile industry and Hyundai in the 1980s, when the transition to a globalizing world and open economy system. It was a time of rapid international expansion for Hyundai, as Hyundai quickly became a follower while competing with the US, European and Japanese automotive leaders. The company entered the UK market and the Canadian market respectively. The Hyundai

Pony became the best-selling car in Canada, with good sales numbers, and it was also the first Korean car sold in Canada. In 1986, the Pony Excel became the first Hyundai model sold in the United States. Hyundai sold 168,000 units in the first year of its sales in the US, breaking an all-time record that still stands to this day.

Hyundai has reached another milestone by developing its own gasoline engine and its own gearbox with its experience gained after many successes in the global market. These developments have become an important milestone in achieving technological independence for Hyundai. During the 15-year period between 1976 and 1990, Hyundai continued to develop and consolidate its position as the leading international automobile manufacturer. During this period, Hyundai released very popular models such as Pony and Accent.

In the 1990s, Hyundai set foot in Europe, which is the center of the automobile. In 1997, Hyundai opened its first overseas production facility in Izmit, Turkey. Production is still continuing at the factory, which is Hyundai's longest operating overseas production facility. It has become a facility responsible for monitoring technological developments in Europe, as well as designing and engineering new cars for the European market.

Previously, there were two other major automotive manufacturers in South Korea, Daewoo Motor and Kia Motor. However, both manufacturers were in financial trouble after the 1997 Asian Financial Crisis and Kia Motor was bought by Hyundai Motor Company. In 1999, Hyundai Motor Company found it appropriate to position itself as a serious global competitor and to increase product quality for this purpose, as its most important strategy.

At the turn of the millennium Hyundai had begun to refine its image to position itself as a worldwide brand. Its parent company, Hyundai Motor Group, has invested heavily in the quality, design, production, and long-term research of its vehicles, especially in Europe. Hyundai European Design Center was established in 2001, followed by Hyundai Motor Europe Technical Center and Namyang Design Center in 2003.

Throughout the 2010s, Hyundai turned its attention to environmentally friendly vehicles and technology. Going forward, the company aims to lead the era of pollution-free mobility by increasing fuel efficiency and seeking new energy possibilities.

4.3 Hyundai Motor Company's global strategy

Exporting is the backbone of the contemporary Korean automotive industry. Hyundai Motors Company sold a total of 4.4 million vehicles in 2019. In 2020, it became the fifth largest automobile manufacturer in the world and the 6th largest vehicle exporter in the world. Since the 1980s, it has started to develop strategies to increase its presence in the overseas market. First, they made joint ventures with foreign automotive manufacturers to strengthen their position in the international market. It is necessary to closely follow the developments in product design and production technologies in order to ensure the development in production and export. To consolidate this process, Hyundai entered technical cooperation with Japanese automotive giant Mitsubishi for the supply of automotive framework components and parts that are difficult to manufacture. Entering the US market in the mid-1980s, Hyundai saw the need to diversify the overseas market as the next step. In the mid-1990s, the Hyundai brand was gaining recognition in North America, Europe, and the rest.

The vehicle demand in the domestic market had also matured. In the next step, Hyundai is aimed to reach more overseas markets through the expansion of its foreign automobile manufacturing facilities. This can be said as Hyundai Motor Company's most important strategy in the 1990s. Due to the saturated domestic market, cheap labor costs in developing countries and the barriers of developed countries on automobile imports, Hyundai focused on the strategy of establishing production facilities overseas in developing countries. With this strategy, it started to establish production facilities in many countries. It started to establish collaborations and production facilities with joint venture partnerships with major companies in developing countries.

Hyundai began to face increasing global competition both at domestic and global market from the 1990s onwards. By the mid-1990s, Hyundai has determined its global strategy on three main pillars. These are the lean manufacturing system, value added logistics network, growth in overseas markets. Hyundai has adopted the lean production system, a comparative production system, to increase quality and productivity. With the development of this system, Hyundai would be able to fully control the logistics chain, thereby increasing the flexibility of the logistics plan.[57] These improvements were an attempt to directly increase the efficiency of its production.

Hyundai has established a hierarchical committee structure where it regularly exchanges information with its suppliers. Hyundai has started investing in its subcontractors because most of these parts manufacturers are small and medium-sized companies that cannot afford to modernize their manufacturing process. This

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[57] Akbane, "Hyundai Motor's global market strategy", 12-20.

initiative is also important for the modernization of the supply chain and its inability to disrupt it.[58]

On the other hand, Hyundai has concentrated on re-establishing its business operations – especially overseas - and has seen positive response. The increased global competitiveness is one of the preconditions for survival. In this context, they will also continue pushing for strategic tie-ups with major foreign automakers to introduce advanced technology and jointly advance into world markets.
September 2000 Hyundai sold 10% stake to DaimlerChrysler (DC) for about $389.9 million.[59]

Overseas Manufacturing Sites of Hyundai			
Country	Local Partner	Beginning Capacity (k)	Begin of Production
Pakistan	N.A.	10	1988
Egypt	Ghabbour	20	1995
China	Wuhan Wangdong	60	1996
Botswana	Sabot	20	1996
Vietnam	990 Co.,	20	1996
Taiwan	N.A.	20	1997
Turkey	Hyundai-Assan	50	1997
Venezuela	Automotriz Venezuela	10	1997
Malaysia	Renault/Malaysian government	10	1997
India	100%	100	1998
Indonesia	Bimantara	10	1998

Figure 15. Overseas manufacturing plants of Hyundai
Source: Hyundai Official Web Sites, 2020

The stake sale came as part of a broad strategic alliance signed between Hyundai and the German-U.S. company June 26, 2000. Under the alliance, Hyundai

[58] Akcaoglu et al., "The Race between the Czech Republic and Turkey for Hyundai's Investment in Europe", 71-86.
[59] https://www.hyundai.com/worldwide/en/footer/corporate/networks/global

agreed to hand a 10- percent stake over to DC and engage in the joint development of a world car and

technological cooperation. Following the cooperation with GM, Hyundai increased its joint venture capacity to 100,000 vehicles per year in 2000. Thanks to this increase, Hyundai has expanded beyond the Korean market and increased its current share of the Korean commercial vehicle market, while also increasing productivity and profitability.

The next important strategic development took place in the mid-2000s. The demand for small segment vehicles started to increase in the world. Together with Mitsubishi, DaimlerChrysler and Hyundai will develop and manufacture a range of high-quality small cars to compete in all key global markets, including Asia, NAFTA, Latin America and Europe. At a press conference, Hyundai President Lee Kye-an has said that *"We have agreed to share the platform and make essential parts such as the engine and transmission interchangeable. The strategic partnership clearly shows that Hyundai's ability to develop and manufacture small cars has reached world-class levels."*

Hyundai has also made some attempts to increase its presence in the European market. That's why they thought of Turkey as a center. With the Hyundai Assan automotive factory, which started its operations in 1997, Hyundai has become a manufacturer closer to the European market. Hyundai's factory in Turkey has provided solid access to the EU market. Hyundai Motor has made a long-term investment to see Turkey as a long-term partner.

It built an important bridge with Turkey's geopolitical position and growing economy in order to have a larger share in the European market. Hyundai has chosen its Turkish factory as a strategic point for Europe. The Turkish factory is the first factory that Hyundai has established overseas. The Turkish factory is an important pillar of the company's global production system, as well as assembly lines in India and China.

As part of Hyundai's expansion plans, Hyundai Assan Otomotiv Sanayi has aimed to capture one third of the Turkish automobile market. In 2020, it increased its annual production capacity to 245,000 i10 and i20 models. The adventure, which started in 1997 with a production capacity of approximately 60,000 Accent, has nearly quadrupled. Hyundai Assan, the brand's compact automobile base in Europe, exports these vehicles to more than 40 countries. Countries such as Germany, England and Italy are among the top export destinations for the brand. While Hyundai Assan produced 137,000 units in 2020, it exported 93 percent of it.

Within all these strategic plans, Hyundai has become one of the automotive manufacturers that produces the most vehicles and has one of the largest market shares.

4.4 Hyundai-ASSAN as a joint venture model

A joint venture is a third company that is separate from the parent companies that they form by pooling their resources to achieve the objectives of a multinational and local company.[60] Multinational companies form joint ventures with local companies in order to protect against the competition of other foreign companies in the countries they enter and to prevent foreign companies from penetrating the market. The joint venture gives foreign companies some form of local identity. The joint venture can be established in different sectors and in different types. Hyundai

[60] Nakamura et al., "An Empirical Investigationof Joint Venture Dynamics: Evidence From U.S.-Japan Joint Ventures", 521-541.

ASSAN joint venture was established in 1994 with half-half joint venture method. At least one of the parties forming the joint venture has its headquarters outside of the country in which the joint venture operates. The activities of this new initiative, the determination of basic investment, production, marketing, and management policies are under the joint control of the main companies that are economically and legally independent from each other.[61]

Partners can participate in partnerships with resources such as technology, patents, general management information, physical assets such as machinery, equipment, market information, distribution channels, materials, labor, finance.[62] Thus, the parties obtain their insufficient resources through another business and share the project risk when a new product is developed.[63] The relationship between Hyundai and ASSAN first started in 1990. In 1990, ASSAN became the distributor of Hyundai brand in Turkey. Close relations between the two companies and indeed the two countries, and later Hyundai Assan Automotive Industry (HAOS) was established to produce vehicles for the Turkish market and the region. The factory in Izmit region started production in 1997 and now produces i10 and i20 models for domestic and European markets. In 2020, the factory's capacity was increased to over 240,000 units. Hyundai is the 7th best-selling automobile brand in Turkey with sales of 27,540 units in 2020. Hyundai Motor Company continues its investments in Turkey. The Hyundai Turkey factory, which has doubled its production capacity in the last 10 years and produces new i10 and i20 models, has become one of the most important production points of Hyundai Assan Automotive Industry.

[61] Hall, The International Joint Venture, 24-123
[62]Cullen et al., "Japanese and Local Partner Commitment to IJV's: Psychological Consequences of Outcomes", 85-101.
[63] Christelow et al., "International Joint Ventures: How Important Are They?", 7-13

Won-Shin Chang who is Chairman and CEO of Hyundai Assan, said in a statement in 2019 that "2020 will be an important turning point for Hyundai Assan." and "We believe that the expansion to be made in the coming years will make a great contribution to the Turkish economy with new employment and exports,"

In the last 10 years, with the investment of Hyundai Motor, new Korean suppliers have invested in Turkey and increased the total number of suppliers to over 30. Suppliers have also made many investments to prepare for production of the new i10 and i20 models. As a result of the investment, approximately 775 new jobs were created within the body of Hyundai Assan. In addition, a total of more than 2000 new jobs were created within the sub-industry and suppliers.

Hyundai Motor Company, which has an important market share in the A and B segments, has become the small car production base of Europe with the production of the new i10, which started in 2010 and was added to the ongoing i20 production. The cars produced were exported to more than 30 countries, mainly Europe, and 190,000 of the 203,000 vehicles produced in 2019 were exported. Hyundai continues its investments in its Turkish factory in 2021. Studies and investments have started for the production of Hyundai Bayon, which is in the developing B-SUV segment.

4.5 The Advantages of investing in Turkey

Multinational companies aim to increase their profits and expand in the market when they invest in a country. In order to achieve these results, the country receiving the investment must have some attractive features. Turkey is an emerging country that has been continuously developing since the early 2000s and its economy has been growing exponentially. Many multinational companies have invested in Turkey in last three decades.[64]

Automotive industry is one of the biggest contributors to the development of a country's economy. It has come a long way in the Turkish automotive industry since the 1960s. It is an advantageous base for many multinational automotive manufacturers due to its geostrategic location as well as having the basic factors required for the automotive industry. I will try to mention strong points for FDI in Turkey.

With finance and manufacturing sectors having attracted the highest amount of investments in Turkey, sectoral breakdown of FDI became significantly diversified in line with Turkey’s 2023 vision of having a higher position in the global value chain.[65]

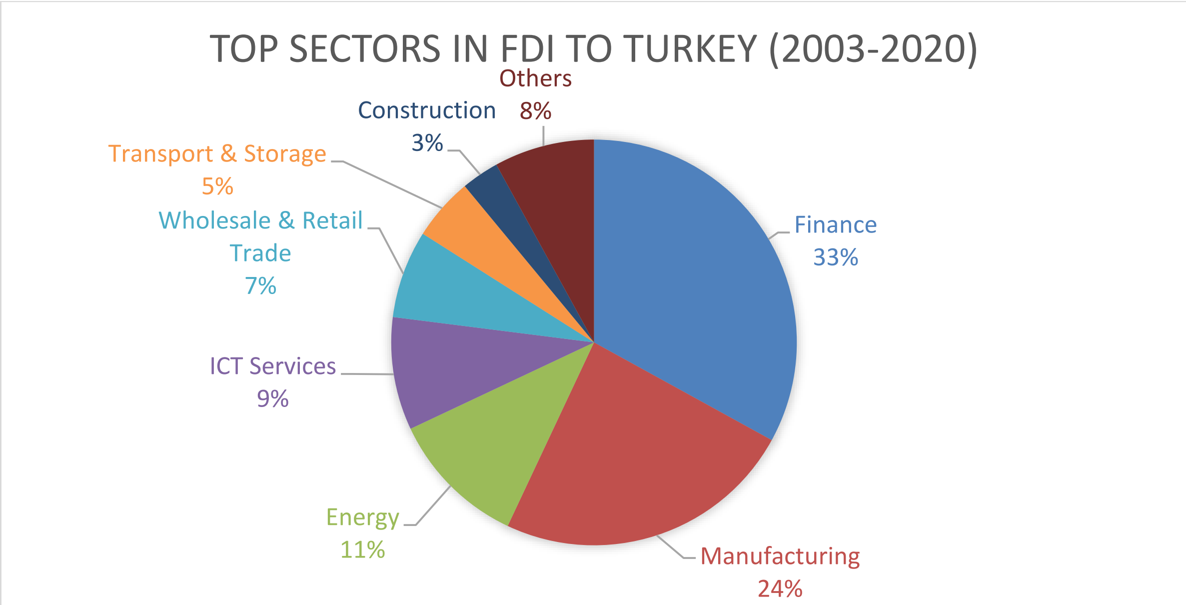

Figure 16. Top sectors in FDI to Turkey (2003-2020)
Source: Central Bank of the Republic of Turkey

[64] Akdemir et al., “The effect of strategic alliances on the development of automotive industry: The case of Turkey”, 124-132.
[65] Turkish Time Sectors, “2023 Türkiye Ekonomisi Raporu”, 34-46.

There are some advantages such as growing economy, young population, low cost, advanced infrastructure, free trade zone, custom union with EU, emerging domestic market, incentive programs made by government for investors and geographical advantageous position for making FDI in Turkey.

- *Growing Economy Trend*

In the last 12 years, the GDP in Turkey has increased from 231 billion USD to 800 billion USD. Real GDP increased by an average of 4.7% annually in Turkey, which continued its steady growth in the same ages.

- *Young population*

According to the data of the European Statistics Office, Turkey has the largest young population compared to the EU. The total population is 82 million according to the data of the Turkish Statistical Institute. Half of the population is under the age limit of 30.7. Turkey still has a young, dynamic, and multicultural population.[66]

- *Qualified and low-cost workforce*

Turkey has a young and educated population of more than 29.2 million with its increasing work efficiency.[67] Most of the young population works in the industry and service sector. Besides, the low labor costs compared to Europe and North America positively affect employee salaries, which is one of the most important costs of companies.

- *Geographic location*

Turkey has a central location as it is in the middle of Europe, Eurasia, the Middle East and North Africa. It is possible to reach 1.5 billion customers from the central

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[66] https://data.tuik.gov.tr/Bulten/Index?p=Dogum-Istatistikleri-2020-37229
[67] https://data.tuik.gov.tr/Bulten/Index?p=Isgucu-Istatistikleri-I.-Ceyrek:-Ocak---Mart,-2021-37545

location of Turkey. At the same time, Turkey functions as a bridge between East-West and North-South in terms of location.

- *Advanced infrastructure*

Turkey has the advantage of advanced technical infrastructure in terms of transportation, telecommunication, and energy sectors. While there is the advantage of transportation by rail from Turkey to Central and Eastern Europe, there are also low-cost sea transportation alternatives. One of the most important issues for the automotive industry is to have a cheap logistics network. Sea transportation is of great importance in terms of exporting the vehicles produced. Turkey, which has large ports such as Istanbul, Kocaeli, Izmir and Mersin, offers many opportunities in terms of sea transportation.

- *Free trade zone and custom union*

Since 1996, Turkey has a Customs Union agreement with the EU. Turkey has tight trade agreements with the EU, Middle East and African countries, and Free Trade Agreements with 20 countries.[68]

- *Emerging domestic market*

Turkey has experienced an increase in user demands and diversity with the development of the country's economy. Thanks to its young population, Turkey is a serious market for multinational companies. According to the data of the Turkish Statistical Institute, Turkey has a large domestic market with 35.9 million tourists, more than 166 million airline passengers, 57 million credit card users, 71.9 million mobile phone subscribers and 39.9 million broadband internet subscribers.[69]

[68] https://www.ab.gov.tr/customs-union_46234_en.html
[69] https://data.tuik.gov.tr/Bulten/Index?p=Hanehalki-Tuketim-Harcamasi-(Bolgesel)-2019-33594

- *Incentive programs*

Turkey provides a great advantage to investors with strategic investments, large-scale investments and incentives for regional investments and low tax opportunities. Turkey offers investors an investment environment with a strong industry, service culture, international arbitration, transfer guarantee and competitive investment conditions. While the average company establishment period exceeds 11 days in OECD member countries, this period is only 6 days in Turkey.[70]

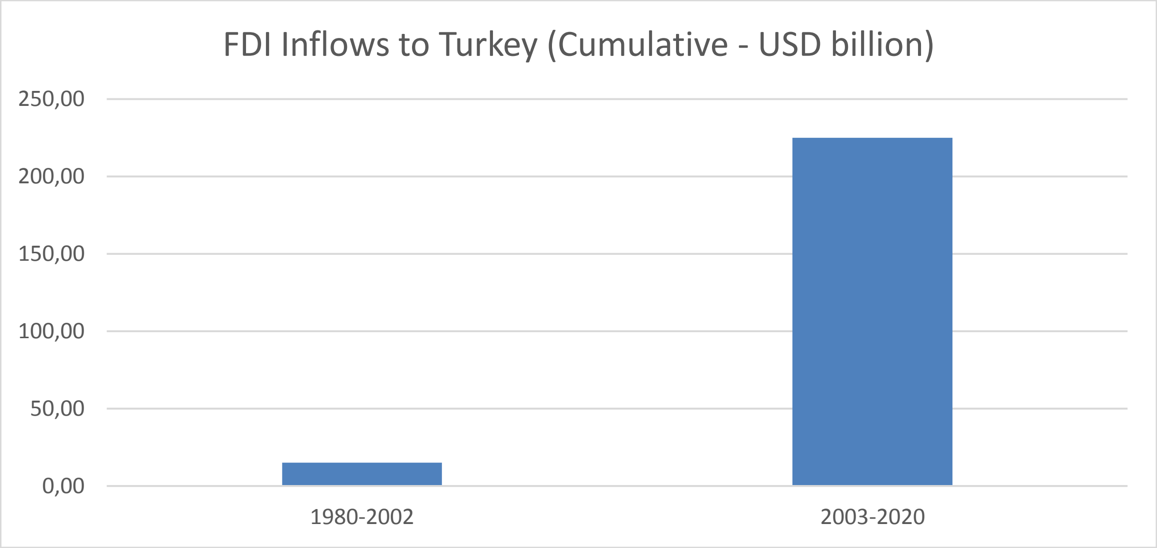

Figure 17. FDI inflows to Turkey (Cumulative – USD billion)
Source: Central Bank of the Republic of Turkey

As shown in Figure 17, until 2002, total FDI into Turkey stood only at USD 15 billion, while the country has since attracted around USD 225 billion of FDI during the 2003-2020 period. [71]

Turkey's impressive growth performance and structural reforms implemented over the past two decades have landed it on the radar of many international investors.

[70] https://www.sanayi.gov.tr/destek-ve-tesvikler/yatirim-tesvik-sistemleri
[71] https://www.ticaret.gov.tr/hizmet-ticareti/yurtdisi-yatirimlar/uluslararasi-yatirim-istatistikleri

According to FDI Markets, Turkey became the 9th most popular FDI destination with 160 projects in overall Europe in 2020, retaining its ranking in 2019, while increasing its share in overall Europe from 3 percent in 2019 to 3.1 percent in 2020, despite the severe effects of Covid-19. In addition, within its peer countries in emerging Europe, Turkey was ranked as the 2nd most popular FDI destination after Poland, with a 16 percent share in 2020, up from the 3rd spot in 2019.[72]

4.6 The effects of Hyundai Motor Company's investment in Turkey

The importance of the automotive sector for Turkey stems from many factors. One of these factors is that the automotive industry is in contact with many manufacturing and service sectors. Supplier sectors, supporting sectors and consumer sectors can be divided into three in direct connection with the automotive sector. Sectors such as glass, rubber, paint, and textiles that directly supply parts for the automotive industry are called supplier sectors. The sectors that support the automotive industry can be summarized as insurance, fuel oil, maintenance, and banking. The automotive sector is also in contact with the sectors it provides services such as transportation, tourism, construction, and agriculture. For these reasons, the automotive sector makes significant contributions to the Turkish economy thanks to its forward and backward connections with all these sectors. The automotive industry is one of the country's driving industries in macroeconomic areas such as employment, tax revenues, exports, sub-industry investments, and social responsibility projects.

[72] https://www.invest.gov.tr/en/whyturkey/pages/fdi-in-turkey.aspx

Since 1994, when the Hyundai Assan joint venture started, Hyundai has been providing direct foreign capital support to the Turkish economy. A tremendous investment has been made in the Turkish automotive industry with the establishment of the Izmit factory and capacity increase investments of the Hyundai Assan joint venture. As can be seen in Figure 18, direct foreign capital investments in the automotive sector in the last decade amounted to approximately 10 billion dollars. Capacity increase, modernization, new model development, quality and standard improvement investments are the main investments made in the automotive sector.

Realized Sectorial Investments ($ m)										
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Capacity Development	40	44	130	142	150	43	82	80	130	91
Modernization	50	61	113	75	60	221	63	96	110	170
New Model Development	366	430	723	855	1.000	615	825	479	482	402
Quality Development	12	16	46	30	26	23	53	54	60	47
Localization	11	70	23	3	8	5	12	9	34	18
Others	72	125	80	95	130	147	96	58	55	30
TOTAL	551	746	1.115	1.200	1.374	1.054	1.131	776	871	758

Figure 18. Realized sectorial investments in Turkish automotive industry (USD million)
Source: OSD - Otomotiv Sanayi Derneği, 2020

4.6.1 Employment effect

Employment is one of the most important issues for the Turkish economy. Reducing unemployment rates and opening new employment areas is very important for Turkey, which has a high proportion of young people. Sectors that create employment are of particular importance in this respect. The automotive sector is one of the sectors that creates significant employment in Turkey. The areas where the automotive sector creates employment are primarily the automotive main industry, and it includes many sectors extending to sub-industries. Many employees, including production, sales and after sales, are employed in the sector or in other areas related to the sector.

They determined the ratio of direct employment to indirect employment in the automotive sector as 1/20. In other words, employment of one person in the sector provides employment opportunities for 20 people indirectly.[73] Today, the automotive sector contributes 4% directly to the employment within the industry in Turkey and approximately 15% indirectly.[74] In addition, this situation is an indicator of high forward and backward links with other sectors.

Most of the employees working in the automobile main industry and sub-industry are employed in the Marmara Region, which is located in the western part of the country. The main factors affecting this situation are the existence of cheap and qualified workforce associated with population density, the existence of a strong sub-industry with a flexible structure, the efficiency of the supply chain, backward and forward linkage effects, proximity to target markets, export and import convenience.[75]

The automotive industry is a sector that manufactures with high technology. New technologies are constantly being applied to production. This situation reveals the need for trained personnel in the sector. In order to meet this qualified workforce

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[73] Kargül et al., "Ekonomik Rapor 1994, Otomotiv Yetkili Satıcılar Derneği", 45-60.
[74] Ng Proje Grubu, "Türkiye'de Otomotiv Endüstrisi, Otomotiv Yan Sanayi ve Kütahya",34-45.
[75] Yaşar, "Türkiye'de Otomotiv Ana ve Yan Sanayi ve Marmara Bölgesi'nde Kümelenme", 779-805

need in the automotive sector, training activities are provided both in vocational schools and in the sector.[76]

Numbers of Hyundai and Total AOE Employment (2000-2019)							
Years	Employee (Blue Collar)	Employee (White Collar)	Adminisrator	Engineer	Administrator Enigineer	HYUNDAI EMPLOYMENT	TOTAL EMPLOYMENT in AOE
2000	515	195	54	24	19	807	31.753
2001	310	95	29	19	13	466	26.680
2002	571	50	54	92	0	767	27.923
2003	1.159	247	76	37	33	1.552	33.145
2004	1.487	280	62	67	9	1.905	38.456
2005	1.497	192	61	43	22	1.815	39.932
2006	1.637	171	56	76	51	1.991	40.747
2007	1.796	261	16	59	11	2.143	46.261
2008	1.692	85	151	127	14	2.069	45.153
2009	1.349	26	102	118	14	1.609	39.584
2010	1.261	90	81	100	38	1.570	40.838
2011	1.356	155	37	93	38	1.679	44.896
2012	1.256	161	45	95	43	1.600	44.655
2013	1.678	172	63	107	33	2.053	42.330
2014	1.983	177	57	160	58	2.435	43.683
2015	2.555	240	70	250	78	3.193	48.748
2016	1.983	153	67	173	71	2.447	53.377
2017	1.936	197	57	181	65	2.436	54.595
2018	1.891	221	62	195	32	2.401	52.066
2019	1.837	205	67	197	24	2.330	50.104

Figure 19. Numbers of Hyundai and total AOE employment (2000-2019)
Source: OSD - Otomotiv Sanayi Derneği, 2020

Figure 19 shows the number of employees from various business groups working in Hyundai Assan and the automotive main industry over the years. According to the table, it is seen that the employment in the sector has shown a rapid development in the last 20 years. Parallel to this, the number of employees of Hyundai Assan has increased over the years. As Hyundai Assan increased its production capacity, the number of employments increased in parallel. These results

[76] İSO, “Otomotiv Sanayi Raporu”, 24-56

clearly show the positive effect of foreign direct investments made by Hyundai Motors Company in Turkey on employment

Considering the increase in employment by occupation groups, it is observed that the highest increase in the number of workers is observed. While the number of employees working as workers at Hyundai Assan in 2000 was 515, this figure has increased by 257% as of 2019, reaching 1837 people. Similarly, in parallel with the growth of the sector, the need for qualified personnel has increased and the number of those employed as engineers, office personnel and administrators has also increased.

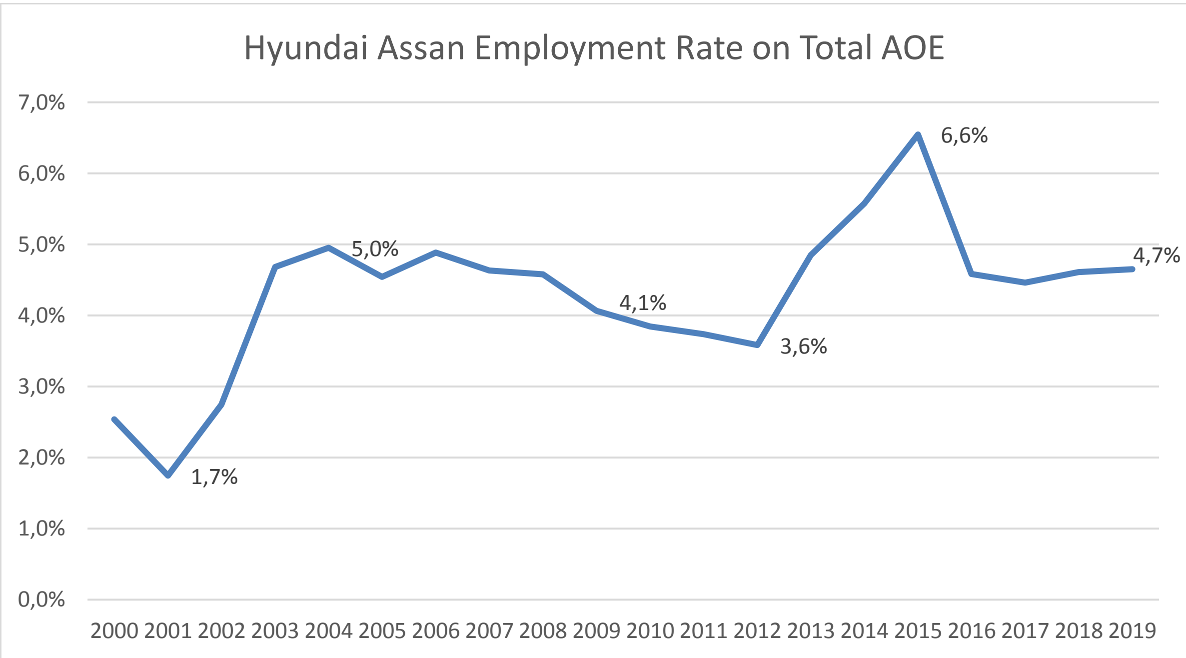

Figure 20. Hyundai Assan employment rate on total AOE (2000-2019)
Source: OSD - Otomotiv Sanayi Derneği, 2020

The number of employees working directly in the automotive industry has reached 50,000. Considering the employment created in the sub-industries and other sectors linked to the automotive industry, the size of the contribution reaches much greater levels. The automotive industry accounts for approximately 5% of the total employment in Turkey. Based on only the industrial sector, the share of the sector in industrial employment is around 15%.

In parallel with the negative developments in the economy and the rapid decreases in demand, especially during crisis periods, the sector has to lay off workers.[77] With the global economic crisis in 2008, employment in Hyundai Assan, which makes export-based production, has significantly decreased. On the other hand, parallel to the rapid recovery trend after the crises There were also rapid increases in employment. With the increase in capacity for i20 model production in 2013, employment rates increased. As shown in Figure 20, Hyundai Assan, which has an export-oriented production structure, is rapidly affected by the changes in the foreign market. These effects directly affect the number of workers and employment.

4.6.2 Export effect

Until the 1980s, the domestic market-oriented production structure in the sector started to change with the adoption of the export-oriented development strategy after 1980. Increasing investments after Turkey's accession to the Customs Union agreement in 1996 caused an increase in both quantity and quality. During this period, global crises and recessions that emerged from time to time caused a decrease in exports from Turkey.

The establishment strategy of the Hyundai Assan joint venture was based on expanding the global market and increasing its market share in the European market. With the help of the 1996 Customs Union agreement, the Hyundai Assan joint

[77] Teker et al., "Dünya Otomotiv Endüstrisinde Küresel Gelişmeler ve Bu Gelişmelerin Türk Otomotiv Endüstrisi Üzerindeki Etkileri", 26-30.

venture started the first vehicle production in 1997 at the Hyundai Kocaeli factory. The joint venture of Hyundai Assan, which produces export-oriented production, has continuously increased its export volume with capacity increase and production of different models over the years.

When the production and export amounts realized in the 2003-2019 period are analyzed in Figure 21, it is seen that production and exports have increased since 2003, the production and export rate have decreased after the economic crisis in 2008, however, the values have started to increase as of 2010. In 2018 and 2019, we can say that more than 80% of the vehicles produced in Turkey were exported and they provided great support to the economy.

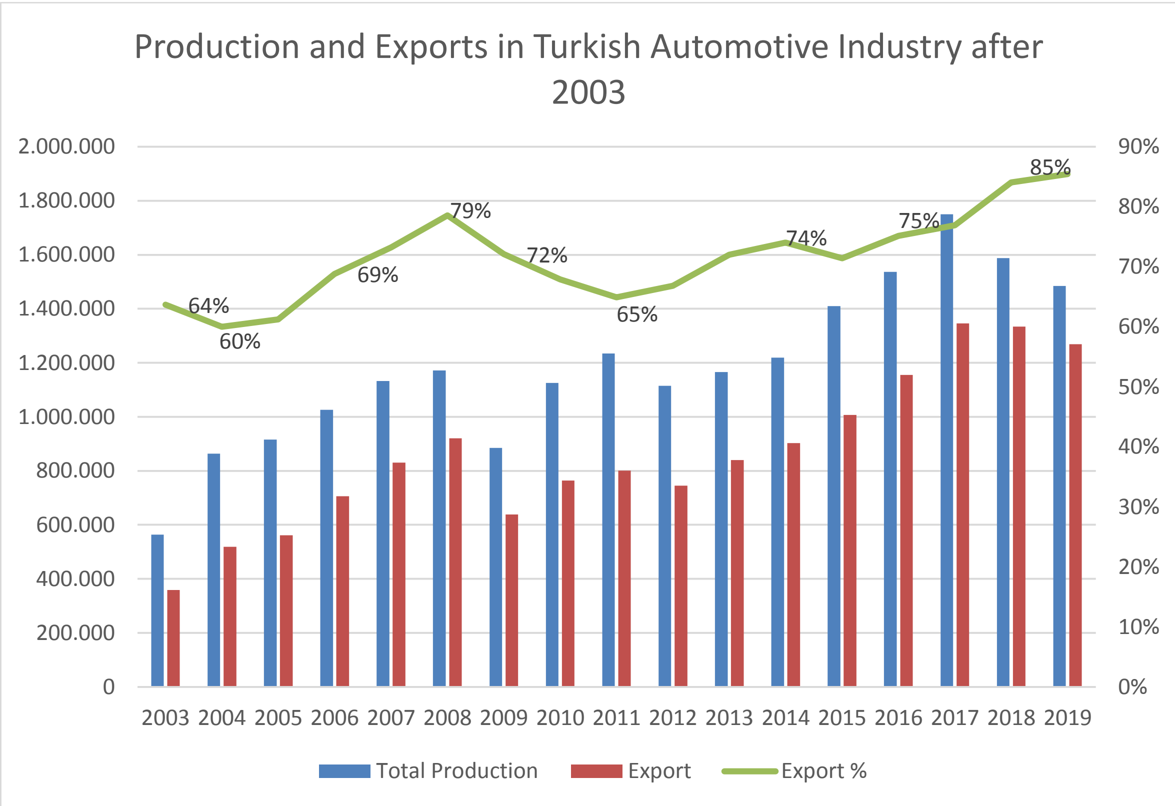

Figure 21. Production and exports in Turkish automotive industry after 2003
Source: OSD - Otomotiv Sanayi Derneği, 2020

Hyundai Assan export data show that more than 85% of the vehicles produced are exported every year. These data show that the Hyundai Assan joint venture proceeds in parallel with the establishment strategies.

In addition, exports are indispensable economic indicators for the development of the country's economy. Providing added value and foreign currency inflow to the country, Hyundai Assan can be shown as a successful foreign direct investment joint venture. As can be seen in Figure 22, the Hyundai Assan joint venture has increased its export numbers over the years with the increase in production.

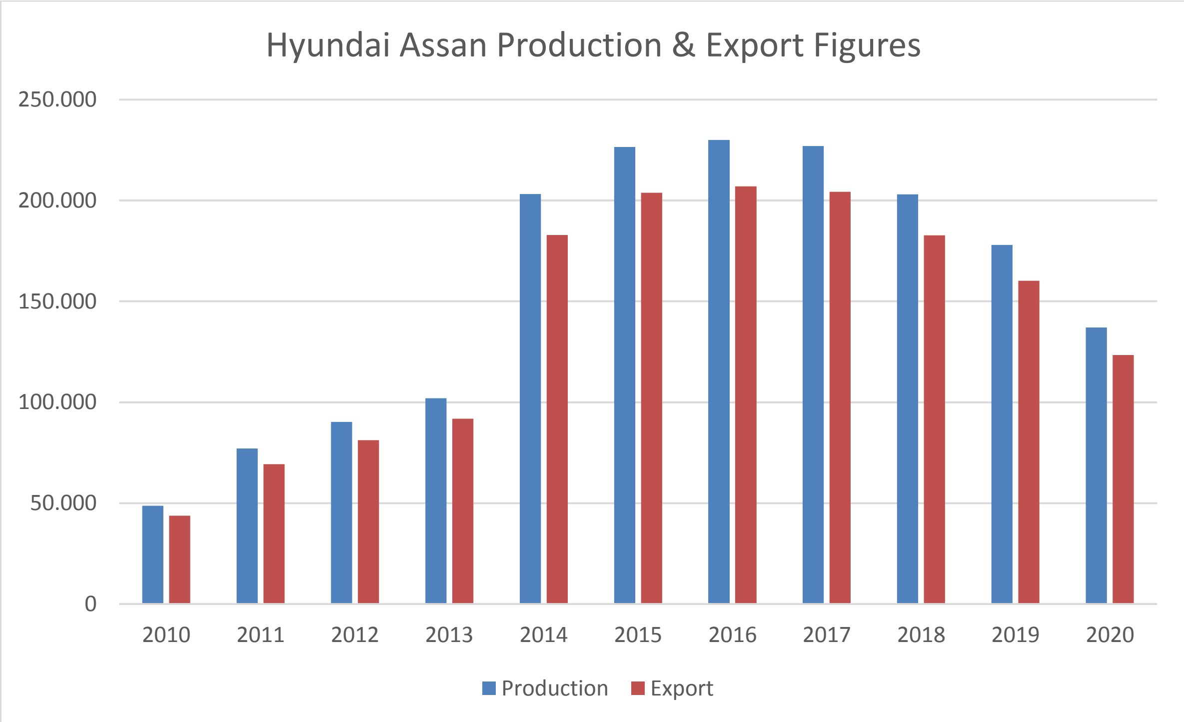

Figure 22. Hyundai Assan production & export figures (2010-2020)
Source: OSD - Otomotiv Sanayi Derneği, 2020

As can be seen in Table 22, the joint venture of Hyundai Assan determined the Turkey facility as the production center of the i20 which is the B segment vehicle of Hyundai in 2013. With the investments in the Kocaeli plant and the increase in production capacity, production and export figures have increased in parallel since

2014. With the effect of the global epidemic COVID-19, which started to take effect at the end of 2019, the production and export numbers decreased compared to the previous years.

4.6.3 Positive effect on tax revenues

Increasing public spending, budget deficits, informal economy, and difficulties in tax collection in developing countries increase the importance of tax revenues. Therefore, items that generate tax revenues have a special importance. In this context, another positive contribution of the automotive sector, especially the main automotive industry, for the Turkish economy is in the area of taxes. It is one of the sectors where the government can easily collect taxes due to the sustainable recording of the sector's activities. Only the automotive sector has a share of 6% in total tax revenues.

In addition, many taxes are collected as direct and indirect taxes on other sectors related to the sector. These tax types consist of corporate tax, customs duties, VAT, ÖTV, MTV, and income tax. Especially in Turkey, the taxes collected in the first automobile sale in some models are more than 100%. In addition, taxes on fuel are directly linked to the automotive sector.

Another impact on tax revenues is the taxes on employment in the sector, which employs approximately 50,000 people. When the figures announced for 2016 are examined, a special consumption tax of 18.9 billion TL from the automotive sector, 10-15 billion TL between value added tax, 10 billion TL motor vehicle tax, 10-15 billion TL income tax and withholding tax revenues were obtained.[78]

Therefore, the automotive sector contributes significantly to tax revenues.

Taxes, Wages and Salaries Paid by Automotive Manufacturers (TL) - 2019

Taxes and Payments	HYUNDAI ASSAN	TOTAL	
Net wages, salaries and bonuses	169.412.918	1.569.458.302	
Income tax	32.106.196	453.281.926	
Social insurance premium paid by employee and employers	45.896.893	645.040.270	
Stamp duty	1.173.890	14.701.923	
Other taxes	6.774.399	145.840.612	
Total production and tax payment	255.364.296	2.828.323.034	
Total import taxes and duties (Excl. V.A.T.)	110.544.945	129.664.875	
Value added tax (V.A.T.) paid to tax offices	0	112.692.224	
Other taxes	2.485.582	498.303.456	
Association tax	0	354.619.255	
Total Tax and Payments	623.759.119	6.751.925.879	9,2%
Total Tax	408.449.308	4.537.427.306	9,0%

Figure 23. Taxes, wages and salaries paid by automotive manufacturers (TL) – 2019
Source: OSD - Otomotiv Sanayi Derneği, 2020

As can be seen in Figure 23, the tax share of Hyundai ASSAN joint venture among automotive main industry manufacturers reached 9% in 2019. In 2019, Hyundai Assan joint venture paid 408 million TL in tax.

4.6.4 Effect on sub-industry

Automotive sub-industry is an industry that supplies spare parts and various components to the main industry. Automotive sub-industry organizations can be a subsidiary of the automotive manufacturer, as well as companies that produce many parts and components independently of the main industry. While some of them were

[78] OSD, "2016 Yılı Değerlendirme Raporu", 16-20.

established with the support of the main producers, some of them were founded by entrepreneurs.[79]

The automotive sector is in contact with many sectors, both in the production and supply stages and in the after-sales process due to the backward and forward link effects. Raw materials and automotive sub-industry components and parts, sales, service, insurance and fuel sectors are just a few of them. While the development of the automotive sector ensures the development of the sub-industries, the development in the sub-industries reduces the use of imported parts and increases the level of domesticity. Therefore, the automotive main and sub-industry has a quality that feeds each other.

In terms of the automotive industry in Turkey, it is seen that the development in the automotive sub-industry is behind the automotive main industry. Automotive sub-industry can generate turnover at the level of half of the main industry, but it cannot fully meet the expectations of the main industry in terms of various factors. While there is a more institutional structure in the field of activity where electronic parts are produced, a structure far from institutionalism stands out in the field of activity where other parts and evenings are produced. Compared to the automotive main industry, sub-industry companies are operated by smaller businesses.[80]

Despite all this, there are around 5,000 automotive sub-industry companies in Turkey. These companies reached; As a result of production capacity, product diversity and standards, they have reached the level of meeting 85% of the spare parts of the vehicles produced in Turkey. Manufactured components and parts are

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[79] Ng Proje Grubu, ”Türkiye’de Otomotiv Endüstrisi, Otomotiv Yan Sanayi ve Kütahya”,34-45.

[80] Şahin, “Otomotiv Ana ve Yan Sanayi Sektör Raporu”, 35-42

exported, and an annual automotive supplier industry export of around 9 billion dollars is mentioned from Turkey.[81]

It is estimated that the automotive sub-industry creates employment opportunities for approximately 300.000 people directly and 750,000 people indirectly. The employment of trained and technical personnel in the sector is high. While the sector trains qualified personnel, on the other hand, it contributes to the sub-industry and the whole sector by opening their own workplaces by the trained personnel. R&D activities are also important in terms of sub-industries. In this sense, there has been an increase in the sector in recent years as a result of the incentives given to R&D expenditures. The investments made in quality, innovation, and human resources in order to adapt to the changing competitive conditions of the sector will also increase the competitive power of the country. For example, with the new investments made by Hyundai, as the development momentum in the automotive main industry increases, progress will increase in the sub-industries in terms of both quantity and quality. This will lead to an increase in production and employment in the sub-industries.

In 2012, Hyundai Assan joint venture decided to invest 607 million dollars in Hyundai Kocaeli factory and sub-industry companies. The company, which will increase the capacity of the facility from 100 thousand to 240 thousand, has produced the new i20 and i10. Hyundai Assan invested 121 million dollars in the existing sub-industry and suppliers during the investment planning process. At the same time, Hyundai invested 104 million dollars in 4 new supplier industry companies. They have completed $ 255 million sub-industry investment project in total.

[81] Ministry of Economy, "Development of Turkish Automotive Industry Report", 5-6

4.6.5 Social responsibility projects

Foreign investors also maintain positive relations with the local people in the countries they invest in. They approach the culture, social life and natural life of the country that receives the investment respectfully and supportively. They also work to increase cultural communication between the two countries. Since the first day of the Hyundai Assan joint venture, the peoples of Turkey and South Korea, whose common history has been strengthened with strong ties, strengthened their relations with these investments.

Hyundai carries out social responsibility activities in many sectors. Majority of these projects, which gained intensity in Kocaeli region, concentrated on fields such as education, sports, environment and culture. Hyundai has been the main sponsor of Kocaelispor, the most important sports team of Kocaeli city, since 2018.

Hyundai provides financial support to many schools, especially vocational and technical high schools. Hyundai offers internship opportunities for students to improve themselves. Thanks to the agreements between Hyundai and vocational schools, both the need for qualified personnel are benefited and job opportunities are offered for the younger generations. Hyundai donates car and engine parts to vocational and technical schools so that students can receive a better quality and observant education.

In addition, Kocaeli province has carried out important afforestation projects on environmental issues. These activities continue with the youth and local schools in order to raise individuals who are always sensitive to the environment.

In addition, Turkey fought for the independence of South Korea in the Korean War. Establishing its first overseas production facility in Turkey and playing an important role in further consolidating the long-standing friendship between the two countries, Hyundai continues with donations and support programs out of gratitude to the Turkish people and army.

At a ceremony held in 2014, Won-Shin Chang, CEO of Hyundai Assan at the time, said that, “As the Hyundai brand, we are always with Turkey, the long-time friend of Korea. Once again, we offer our endless respect to the honorable Turkish army, which extended a helping hand to us in the war we lived between 1950-1953 and was with us in the most difficult moment of our country. We have never forgotten our veterans who fought alongside us in the Korean War. For this reason, it is an honor for us to contribute to the Combat Veterans Association in Turkey, which does extraordinary work and effort in every field to help our veterans lead a more comfortable life.” Many projects and events that support social responsibility and cultural diversity can be given as examples for both Hyundai and multinational companies that make foreign direct investments.

CHAPTER 5
CONCLUSION

As a result of globalization, firms around the world have formed strategic alliances. In Turkey, strategic importance has been given to the formation of alliances as part of the adaptation of the country's economy to the globalization process.With the beginning and maturation of the globalization process in the global market and in Turkey, we see that foreign direct investments and investment movements of multinational companies to emerging countries have increased and their effects have begun to become evident in today's world.

In Turkey, which has been attracting foreign direct investments effectively in the last 2 decades, there are many opinions about how these investments affect the society in terms of economic, political and social, and the general opinion on this issue seems positive. In the light of information such as the results of the literature review on the automotive sector, globalization and foreign direct investments, reports, the results of the main industry and sub-industry activities, it is revealed that there is a very strong relationship between the automotive industry and globalization. I can say that the strong relations between the automotive sector and global capital contribute positively to the Turkish economy and create opportunities for development and growth for many other sectors.

In this thesis, where I examine foreign direct investments in the automotive sector, we see that these investments have pros and cons. However, it is necessary to emphasize the positive reflections of these investments and to support rational and profitable joint ventures and collaborations. Foreign capital investments have great importance for the growth of developing countries' economies.

It is known that the automotive sector is a very important sector in terms of the Turkish economy. The sector makes significant contributions to the Turkish economy in many ways. When the items with high macroeconomic impact are analyzed; The contributions made to the development of employment, economic growth, balance of payments, exports, tax revenues, foreign direct investments and sub-industry stand out at first.

The strategic alliances which is joint ventures that have been formed in the automotive industry have led to the development of the automotive industry and supplier industry in Turkey. At the beginning, the Turkish partner, did not have the adequate resources and technology so the foreign partner has been influential in providing production techniques and similar issues.

It would be practical to summarize the results by doing a SWOT analysis for the automotive industry. If we look at the strengths and weaknesses of the Turkish automotive industry; It is seen that its strengths are mostly focused on production and sales related issues, while its weaknesses are seen in import and demand related issues.

In terms of threats and opportunities, the fact that it has a structure that is extremely sensitive to political, economic and social recessions and uncertainties in the country as well as to the negativities in macroeconomic conditions constitutes the main threat factor. The fact that the domestic and foreign market demand is not yet satisfied, the increase in the young and qualified population in the country, the improvement in macroeconomic conditions, the geostrategic position of the country and incentives create an opportunity.

Foreign direct investments are examined with the example of Hyundai and Assan joint venture. These investments both improve the relations between the two countries and create positive effects on important economic items such as employment, economic development, foreign exchange inflows and exports for the developing economy Turkey. For South Korea, which is a developed country, and the investor multinational automotive manufacturer Hyundai, these investments are beneficial in terms of increasing profits, entering new markets, and increasing market share.

One of the most important results of this study is the effect of FDI on the automotive industry. In this context, Turkey needs to prepare a suitable ground for foreign capital investments. While foreign direct investments affect the automotive industry; It is understood that the development of the automotive sector will affect and improve growth and indirectly many areas. The effectiveness of automotive exports in the development of Turkey's investment portfolio is gradually increasing. Considering the added value created by the automotive industry in the economy, its impact on employment and growth; Increasing investments in this sector will be an important factor in Turkey's development. The increase in automotive exports with incentives, tax reductions and encouraging policies provided by political authorities will not only reduce Turkey's dependence on foreign sources but also contribute to its development.

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