Chapter 23

Foreign Direct Investment in the Cement Industry of Turkey: Overall Contribution by Multinational Businesses and Potential Impacts on the Economy

Aytaç Gökmen
Çankaya University, Turkey

ABSTRACT

The cement sector contributes to the development of the GDP and also the creation of employment opportunities in Turkey. The cement production is made of 100% national inputs and it is exported to 90 countries in the world. Additionally, it attracted an important portion of foreign direct investment (FDI) by means of the privatization operations. However, despite its importance, the cement sector of Turkey is very fragile, especially in times of global crisis and economic downturns. Eventually, the aim of this chapter is to review the cement sector of Turkey, analyze the foreign participation and work out its overall contribution to the entire economic capacity of Turkey depending on credible national and international publications.

INTRODUCTION

Cement is one of the indispensable elements of the construction industry all over the world. It is fundamental for both developed and developing countries in order to correspond to the necessities of civil engineering. Turkey is one of the largest economies in the world and keeps developing. It is in need of more civil construction to keep up with the momentum. Thus, the aim of this study is to review the facts on the cement industry, its differentiating traits, foreign investments in the Turkish cement industry and its overall contribution and impact of the industry on the Turkish economy.

Cement is an indispensable substance for both developed and especially for developing and underdeveloped countries no different than energy,
Cement is also no match for any other building material when it is used for the construction of highways, bridges, buildings and various other infrastructures and superstructures. It is an immense business sector in both the developed and emerging countries too. The pioneers of the world market in cement manufacturing are Cemex, Buzzi, Heidelberg, Holcim, Lafarge and Italcementi. These international businesses account for about 40% of the global cement market. Cement is the most basic form of ingredient of the construction industry which has been manufactured for decades with little variation. What is changed profoundly is the manufacturing process of this substance as to produce more efficient. Also, the market for cement industry has developed in accordance with the developments on the global basis parallel to the necessities of increasing cement usage across the world. However, there are also adverse developments in this issue too. Cement is a pollutive substance and there must be a considerable amount of energy source to run the process. Therefore, this very beneficial material for the advent of humanity and development of construction industry along with the economic development is also quite energy consuming and environmentally pollutive (Kumar et al., 2013; Habert et al., 2010; Schneider et al., 2011; The Economist, June 22, 2013; Tsekuras & Skuras, 2005; Altcin, 2000; Barker et al., 2013; European Cement Association, n.d.).

Yet, another important trait of cement is its reasonable cost when produced efficiently, but it is also a bulky material. Therefore, in order to make the production process more efficient and decrease the costs, it must be produced in huge volumes and plants should be located close to the necessary markets and suppliers. Being close to markets is very important; because, the liquid form of cement cannot be transported in its regular form more than 300 kms. Besides, since it is easier in comparison to other industries to manufacture cement, the more a manufacturer produces, the more it can lower the prices. Thus, producing the cement more efficiently at lower prices means that it becomes easier to crowd out possible existing firms out of the market or to have access to various markets across the world. This is also true for countries that have excess cement manufacturing capacity. Turkey is one of the leading cement producing countries in the world. It has got a great potential in this sector. Thus, the aim of this study is to focus on some data and facts that make the cement sector considerable for the Turkish Republic and assess the situation with respect to foreign investments and the operations of international enterprises (Altcin, 2000; Schneider et al., 2011; The Economist, June 22, 2013; Kumar et al., 2013).

CEMENT INDUSTRY AND ITS DIFFERENTIATING CHARACTERISTICS

The indispensable element of civil engineering, cement is both produced in almost all parts of the world and also traded globally. The production of the commercial volume of cement increases in direct correlation with the industrialization and urbanization of a country, such as the demand increase in developing and emerging countries. Since, there are more construction projects that are realized in developing and emerging countries, it is likely to be witnessed a demand increase for the cement in these regions in the forthcoming periods. For instance, the cement manufacturing giant of France, Lafarge makes a substantial portion of its production and sales outside of its home markets (The Economist, June 22, 2013).

Cement manufacturing is easier in comparison to other heavy industries. Yet, it has certain characteristics that differentiate it from other ones. First differentiating characteristic is its capital intensive structure. It is not a low cost project to build a cement plant since the production of 1