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Locational Preferences of Transnational Corporations in Turkey: From the Last Period of the Ottoman Empire to the 2000s

Serap KAYASÜ* N. Aydan SAT**

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Abstract

Transnational corporations (TNCs) have played an increasingly significant role in the world economy particularly throughout the last four decades. TNCs' crucial significance makes them a subject of great concern to consumers, producers, nation states, and international organizations within the context of globalised economy. Locational preferences of transnational corporations, on the other hand, have always been deeply affected by changes in the economic and political structures, i.e. policies, institutional, and legal frameworks for foreign direct investments. From this point of view, the aim of this paper is to unravel the ways in which locational preferences of transnational corporations have changed throughout different historical periods in Turkey. For this aim, a historical analysis by way of giving reference to fluctuations occurred in the economic and political structure of the country is carried out from the host country perspective starting with the last period of Ottoman Empire to the 2000s. In this context, a historical account of the various factors that affect the location selection decision of transnational corporations, home countries of these companies, sectors these companies invested in, their investment capital, policies related to foreign direct investment in the host country, accessibility to markets, infrastructure in the host country, and other resources were enquired in the Turkish context.

Keywords: *Foreign Direct Investment, Transnational Corporations, Locational Preferences, Economic and Political Structures, Turkey*

* Prof. Dr., Department of City and Regional Planning, Middle East Technical University, Ankara, Turkey, kayasu@metu.edu.tr

** *Correspondence Author*: Assoc. Prof. Dr., Department of City and Regional Planning, Gazi University, Ankara, Turkey, bnecibe@gazi.edu.tr

Türkiye'deki Çokuluslu Şirketlerin Yerseçim Tercihleri: Osmanlı İmparatorluğu'nun Son Döneminden 2000'li Yıllara

Öz

Çokuluslu şirketler, özellikle son kırk yıldır dünya ekonomisinde giderek önemli bir rol oynamaktadırlar. Çokuluslu şirketlerin bu artan önemi, onları küresel ekonomi bağlamında tüketiciler, üreticiler, ulus devletler ve uluslararası kuruluşlar açısından büyük bir ilgi odağı haline getirmektedir. Öte yandan, çokuluslu şirketlerin yerseçim tercihleri, doğrudan yabancı yatırımlara yönelik politikalar, kurumsal ve yasal çerçeveler gibi ekonomik ve politik yapılardaki değişimlerden her zaman derinden etkilenmektedir. Bu bakış açısından hareketle, bu yazının amacı, çokuluslu şirketlerin yerseçim tercihlerinin Türkiye'de farklı tarihsel dönemler boyunca nasıl değiştiğini ortaya koymaktır. Bu amaç doğrultusunda, çokuluslu şirketlerin yerseçim süreçleri, ülkenin ekonomik yapısından ve siyasal yapısında meydana gelen dalgalanmalara da vurgu yaparak, evsahibi ülke olan Türkiye perspektifinden Osmanlı İmparatorluğu'nun son döneminden 2000'li yıllara kadar uzanan bir süreci içeren tarihsel bir analiz yapılmaktadır. Bu bağlamda, Türkiye'de yerseçmiş bulunan çokuluslu şirketlerin yerseçim kararlarını; çokuluslu şirketlerin ev sahibi ülkeleri, yatırım yaptıkları sektörler, yatırım sermaye miktarları, yatırımı alan ülkedeki (misafir eden ülke) yabancı yatırımlara yönelik olan politka uygulamaları, mevcut pazarlar ve bu pazarlara erişim imkanları, teknik altyapı ve diğer kaynaklar vb. etkileyen faktörler temel alınarak tarihsel olarak incelenmektedir.

Anahtar Kelimeler: *Doğrudan Yabancı Yatırım, Ulusaşırı Şirketler, Yerseçim Tercihleri, Ekonomik ve Politik yapılar, Türkiye.*

Introduction

Transnational corporations (TNCs) have played an increasingly significant role in the world economy particularly throughout the last three decades. TNCs' crucial significance makes them a subject of great concern to consumers, producers, nation states, international organizations within the context of globalised economy.

Global dynamics play an important role in the locational preferences of TNCs not only at the international scale, but also at the local scale. Location selection decisions of TNCs take place at the interplay of complex economic and political processes. A historical account of these processes can shed some light on the current preferences of TNCs in specific locations.

Analyses on TNCs are generally carried out from three different perspectives. First, studies based on a home country perspective, i.e. taking the home country policies as the basis for foreign direct investment (FDI) inflows; generally carry out their analyses through the investing firm. Second, in the context of a host country perspective, local potential and host country policies affecting FDIs are taken into consideration. Third, relational approaches take both perspectives into account, in the sense that both home and host country policies are regarded as being significant for the preferences and location selection decisions of TNCs.

From this point of view, this study aims to reveal the ways in which locational preferences of transnational corporations have changed throughout different historical periods in Turkey. The remainder of the paper is organized as follows. After the introduction, Section One presents a brief literature review, concentrating on prior studies on foreign direct investment and locational preferences. Section Two analyses TNCs in Turkey and host country policies from Ottoman Empire to the 2000s. This section was divided into four different periods, which not only underline different economic and political circumstances at the international scale, but also relate to the formation of host country policies at the local scale in accordance with these circumstances. Finally, results and discussions were given in Section Three, which is the conclusion.

The study seeks to demonstrate the ways in which the globalisation process affects international production. In this sense, the creation of knowledge-based economy, the integration of international economic and financial activities including relations that have been fostered by electronic networks (Kobrin, 1999, p.135), the liberalisation of cross-border markets have been regarded as being crucial dynamics of the new global economy. These dynamics have been leading TNCs to adjust their strategies and locational preferences in a globally competitive environment.

1. Foreign Direct Investment Inflows and Locational Preferences

The theory of TNCs and their Foreign Direct Investments (FDIs) are currently a topic of central importance within the context of global economic relationships. From the beginning of the 1960s onwards, different approaches have been adopted for explaining their activities. Three significant theoretical frameworks can be developed regarding TNCs and their FDIs. First is the contribution of Hymer during the 1960s, which is firm-based and therefore based on home country perspective. The second has been articulated as the “eclectic paradigm” that was developed by Dunning (1981), which emphasises the importance of locational characteristics and host country perspective. Finally, along with the emergence of the new world economy since the 1980s the relational approach, i.e. including both home and host country perspectives, should be pointed out in this context.

It would be difficult to specify an established theory of FDIs by the 1960s within the framework of the neoclassical theory. In general, explanations based on portfolio investment were adopted in studies regarding FDIs. The contribution of Hymer to FDI literature, which had stemmed from the theory of *monopoly* and *internalisation* from firm and home country perspective, was quite prominent under the conditions of the late 1960s. In fact, most researchers, namely Bergsten, Horst and Moran, have stated that much of the research done in the past fifteen years can be seen as a refinement or an extension of it (Bergsten, Horst and Moran, 1977:6).

The quest for developing general theories of international production became fashionable in the 1970s and early 1980s. During these years these *general*[i] theories of FDIs were not considered as being sufficient in explaining certain types of international production. In fact, those theoretical approaches responded by either dismissing the relevance of the evidence or adopting their terminology to accommodate it.

By the 1980s, the limitations of particular theoretical approaches had led academic inquiry in the field to two different directions. First, within each approach there was an effort to extend the scope of theories regarding FDIs. Second, an attempt was made to avoid confrontation among alternative theories setting out to encompass one another, by constructing a general framework of the analysis of international production. In fact, international production provides a common ground for different theoretical approaches. This general framework was developed by Dunning, and due to its deliberate emphasis on a variety of theoretical approaches, it was defined as the ‘eclectic paradigm’ (Dunning, 1981, 1988).

In the context of eclectic paradigm, ownership advantages and internalisation of market transactions are considered as being the rationale for TNCs as well as 'locational factors', namely factors specific to 'host' country (Dunning, 1988). The role of these factors has received little attention from other authors, i.e. except for Vernon (1966) and Buckley and Casson (1976), partly owing to the belief that locational differences between developed countries are of minor significance. The eclectic paradigm, unlike the other theories stated previously, is accepted as a general framework for the activities of enterprises engaging in cross-border trade activities. This particular explanation may not be considered as being a TNC theory *per se*; however, it might well be considered as being an important step towards it.

According to Dunning (2000, p.163), '…geography and industrial composition of foreign production undertaken by Transnational Enterprises (TNEs) is determined by the interaction of three sets of interdependent variables –which themselves, comprise the components of three sub-paradigms: ownership, location and internalisation'. The foreign market must offer a *location advantage* that makes it profitable to produce the product in the foreign country rather than simply produce it at home and export it to the foreign market (Dunning, 1994:81). Although tariffs, quotas, transport costs, and cheap factor prices are the most obvious sources of location advantages, factors such as access to customers can also be important.

According to Dunning (2000), new researches carried out in the last two decades have put their emphasis on new locational variables; namely, exchange rate and political risks, the regulations and policies of supra-national entities[ii], inter-country cultural differences. Other variables that are common to both domestic and international locational choices have also been attributed a particular value[iii]. These add-on or re-valued variables should be accommodated within the analytical structure of ownership, location, and internalisation (OLI) paradigm. All in all, theories TNCs and their locational strategies mostly emphasise accessibility to markets and resources, i.e. infrastructure and labour resources as well as host government policies, level of activity, existing capital, and FDI stock in the host country. It should be also noted that research on the process of globalisation have generally concentrated on the redefinition of the TNCs and their locational strategies.

2. TNCs in Turkey and Host Country Policies

The aim of this study is to unravel the evolution of locational preferences of FDIs in Turkey throughout different historical periods. The study concentrates on the relationship between host government policies and locational strategies of TNCs in the case of Turkey. An evaluation of FDIs' locational preferences has been carried out in four different periods. These periods not only underline different economic and political circumstances at the international scale, but also relate to the formation of host country policies at the local scale in accordance with these circumstances. Introduction of FDIs to the Ottoman Empire was realised during the first period, which has been defined as the 'last period of the Ottoman Empire'. The second period, i.e. 'early Republican period', refers to the period between 1920 and 1945, which starts from the beginning of the National Independence War to the World War II. This period involves the construction of a national economic system. The third period, which spans from 1946 to 1989, contains three different phases; i.e. 'the integration to the international economic system' after the World War II (1946-1975), 'transition to capital import and the debt crises' (1975–1979) and 'transition to liberalisation' and important changes in foreign economic relations (1980 – 1989). The fourth and last period focuses on the 'global world market and integration to the newly emerged networks' throughout the 1990s in which the number of the foreign investor peaked in Turkey.

2.1. First period: Last Period of the Ottoman Empire (19th century-1919)

The last period of Ottoman Empire is particularly significant in terms of capital movements, due to the fact that the country was an open peripheral economy in these years. Economic and social development processes were deeply affected by lagging reforms that should have taken cultural and scientific renaissance, new innovations that took place in Europe since the 16th century onwards into account. Eventually, trade privileges that were given to certain European countries in the 16th century turned into unilateral "capitulations" and conceded by the Ottoman Empire in the 19th century. At this point foreign resources of capital, namely foreign debts and FDIs, became very significant factors for the local economy.

Although there were a certain number of foreign investments in this period, only two of them were officially registered according to the records of the Undersecretariat of Treasury in Turkey. Records state that both investments had located in Istanbul before 1919; however, data regarding to the home countries of FDIs, their invested capital and sectoral definitions have not been available. On the other hand, according to Yerasimos (1975), FDIs in Ottoman Empire were mostly done in the service sector, such as finance, insurance and trade, and in infrastructure such as railway, electricity, and water supply. The reasons in preferring of these sectors by foreign investors were the high profit rate in the short-run, and certain characteristics of foreign capital (Kepenek, Yentürk; 2000, p. 11). In general, during the 19th century, most of the foreign investment were realised in these sectors particularly in developing countries. That means foreign capital did not prefer to invest in industrial production since this type of investment was more expensive and required new technology.

Foreign investors mostly preferred to construct railways that were used and operated for commercial activities, which included imports and exports. The first railway construction in Anatolia was completed by a British firm in 1860, i.e. Izmir-Aydin Railway. A French firm constructed Bandirma-Izmir Railway before the World War I. In addition, Edirne-Istanbul Railway construction was completed by a French firm. Another line, which had been planned to be connected to Baghdad, was Istanbul-Eskisehir-Adana Railway, the 'BAGHDAT BAHN'; however, this particular line could not be completed (Azcan, 1995, p.197). It is worth mentioning that foreign investors of these railway constructions acted also as their operators upon the completion of lines. This might be considered as being a privilege given to the investors during this period. In sum, until the 1920s, the 68% of the foreign investments were used for railways, and according to Eldem (1973, p.73) 63% of these railways are still in the boundaries of Turkish Republic.

2.2. Second Period: The Early Republican Period (1920 – 1945)

From 1923 to 1945, radical changes occurred in the world economy. The great depression in the early 1930s and the World War II were the most crucial among changes. Even though the world economy endured the effects of these changes, capital and product mobility decreased sharply.

During this period, Turkey was a very young Republic, which was in the process of creating her own social, political and economic structure on one hand and minimise the effects of developments taking place at the international scale on the other. In this context, the development of a national production system was one of the most significant priorities for Turkey. *Abolishment of capitulations and elimination of privileges given to foreign firms* policy, which was related to these priorities, was adopted by the government (Kazgan, 1999). Although capitulations were abolished with the Treaty of Lausanne, Turkey could not control the custom duties until 1929 (Kazgan, 1999, p. 57; Kepenek, Yentürk, 2000, p. 47). Following this, the government started to build the reconstruction of foreign trade regime, payments of foreign debts, accumulation of national capital, and economic development. Those railways and seaways that had been operated by foreign firms were nationalised by the government. Moreover, *creation of national bourgeoisie* policy was also in effect throughout this period. As a matter of fact, during the Ottoman Empire, more than half of the production facilities were carried out by foreign firms (Kazgan, 1999, p.65).

The government adopted etatist policies, which can be conceptualised as being a combination of market economy and a central planning system (Togan, 1994, p.1) within the framework of *five-year development plans*. These plans assigned a leading role to the public sector for savings generation and carrying out key entrepreneurial functions in industrial development (Togan, 1994, p.2). Etatist policies survived the Second World War mainly due to the necessity of government controls in the face of war conditions. In January 1940, the law on national protection was accepted by the parliament. This law granted the government the power to take over the national economy completely (Togan, 1994, p.2). During the 1940s, the development of economy came to a standstill. Per capita income was either stationary or fell, but disposable incomes definitely fell due to higher taxes (Togan, 1994, p.2).

During the immediate post-war years, the Marshall Aid was granted to Turkey. Existing companies and well-to-do farmers eventually became new entrepreneurs as a result of the Marshall Aid that was particularly effective in agricultural mechanisation (Özer, 2014, p. 435).

An overall account of these events demonstrates that the main goal in this period was not only the encouragement of entrepreneurship, but also the implementation of nationalist policies. As a result of these policy implications, the initial fundamental steps in industrial production and FDIs in this sector were going to be taken during the crisis and war years, and this was actually the case according to the records of the Undersecretariat of Treasury in Turkey.

2.3. Third Period (1946-1989)

This period is divided into three different phases, since very important changes realised during these years in both international and national economic and political structures.

2.3.1. Phase I: Integration to international economic system (1946-1975).

Three different periods underline different policies with regard to the international economic relations in the context of Phase I. First, integration to the international system after the World War II; second, transition to a more liberalised and open market economy that accelerates foreign direct investments (the 1950s), and finally, the planned economic development process (1963-1974). According to the World Bank (1950, pp. 32-33), one of the reasons for increasing foreign capital inflows to Turkey after World War II, was Turkey's membership to international economic organizations (1947-IMF, 1956-International Finance Cooperation (IFC), 1960-International Development Association (IDA), 1945-International Labour Organization (ILO), 1961-Organization for Economic Cooperation and Development (OECD) and GATT). Until this period, the government had limited resources yet, foreign borrowing was also limited; in fact, the emphasis was put on repaying Ottoman debts. Immediately after the World War II, Turkey had a minor foreign debt burden (Bulutoğlu, 1974, p. 142).

Table 1:Foreign Aid and FDI, 1946-1962

	Economic Aids of the US			Other aid foundations	Realized FDI	Realization ratio*
	Debt	Grant	TOTAL			
1946-48	45,4	-	45,4	5,0	-	70,8
1949	33,8	-	33,8	-	-	
1950	40,0	31,9	71,9	80,4	-	
1951	-	49,8	49,8	-	3.400	70,8
1952	11,2	58,4	69,6	35,2	2.993	11,1
1953	-	58,6	58,6	20,0	1.148	6,3
1954	-	78,7	78,7	3,8	2.598	2,4
1955	25,5	83,8	109,3	-	8.002	16,3
1956	25,0	104,3	129,3	-	21.605	32,3
1957	25,1	62,3	87,4	13,5	10.531	24,6
1958	23,2	90,4	113,6	125,5	15.068	26,1
1959	97,2	107,0	204,2	-	19.825	28,5
1960	26,5	99,0	125,5	37,0	18.711	38,2
1961	131,0	89,8	220,0	161,7	43.056	48,9
1962	102,5	81,6	184,2	15,0	87.246	65,3
TOTAL	586,4	995,6	1.584,0	497,1	234.233	32,8

* Realized FDI as a proportion of FDI permits.
Source: Kepenek, Y. and Yentürk, N., 2000.

Table 1 shows the foreign capital resources between the years 1946-1962. The table indicates that foreign debts rose 750% in TL and 410% in US $. This increase was higher than the increase in the national income.

One important characteristic of this period is the encouragement of foreign private capital (Kepenek and Yentürk, 2000, p.103). In this context, the regulations based on Act No: 1567 (The Law on Protecting the Value of Turkish Currency) was modified as a first step, which enabled foreign investors to invest in agriculture, industry, transportation, tourism, and other sectors. As a second step, a crucial Act, Act No: 6224 (The Law on Foreign Capital) was legislated in January 1954. This act also indicated that foreign capital could be invested in all sectors, including the production of machinery, equipments, license, patent, and brand names. The third step was the preparation of Act No: 6326 (The Law on Petroleum) in March 1954.

This act was prepared by US experts and aimed to utilise foreign technology in the exploration and production of petroleum. According to Tuncer (1968, p.80), 1.850 million TL worth of foreign capital entered the country due to this act. Kepenek and Yentürk (2000, p.101) argue that this sum was greater than the total FDI that entered the country owing to Act No: 6224 (Yabancı Sermaye Yasası). However, it has also been stated that these investments could not increase the national petroleum production substantially.

Throughout this period, the government used short-term loans with high interest rates for financing foreign trade gaps. Moreover, it provided long-term loans to the national private enterprises (Kepenek, Yentürk, 2000, p.101). Foreign investments that were realised based on Act no: 6224, constituted 1/8 of total foreign capital inflow between 1946 and 1975. In spite of the increase in the amount of foreign investments, i.e. except for the period between 1957 and 1960, the FDI entries were below expectations. One of the most important reasons of this could be the uncertainty in political and economic life of the country (Kepenek and Yentürk, 2000, p.102).

Table 2: Locational and sectoral distribution FDIs (1946-1975)

Invested city	Total invested capital [1]		Most investing country	Most preferred sector
	(trillion TL)	% in total investment		
Ankara	50.4	2,5	Netherlands	Motor vehicle
Bursa	371.9	18,7	France	Motor vehicle
Istanbul	1218.8	61,4	Mixed [2] (Sweden)	Other chemical products, Finance
Izmir	16.8	0,9	England	Motor vehicle,Beverages
Kocaeli	255.0	12,8	Netherlands	Rubber industry,Other chemic. prd
Manisa	1.8	ng	Switzerland	Industrial chemical products
Rize	10.7	0,5	Netherlands	Food industry
Zonguldak	44.4	2,2	U.S.A	Iron and steel industry
Total	2013	99,1	-	-

[1] Total invested capital in this table and its similar in the following sections refer to historical, current-price sums. Due to high rates of inflation in our country, these sums therefore overemphasize more recent years in the sample period.

[2] Mixed indicates that the top-ranking FDI in undertaken not by a single country, but a group of countries.

ng: the value is so small that neglected here.

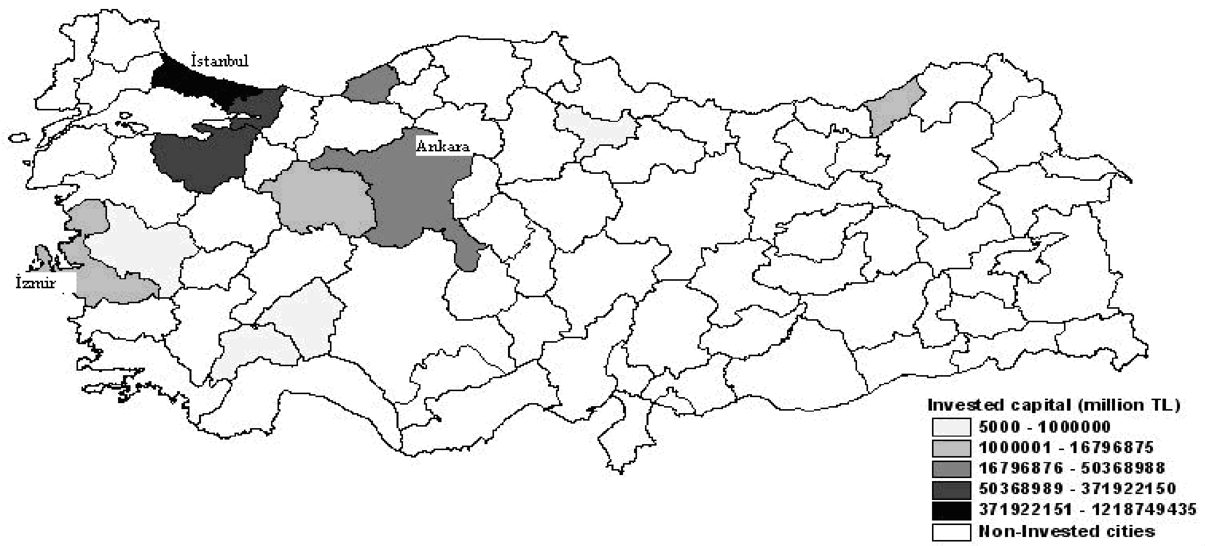
Source: based on information available at www.treasury.gov.tr (21.06.2004)

Table 2 shows the locational and sectoral distribution of FDIs in this period. It is clear that, most of the foreign entrepreneurs, i.e. 61,4 % of total capital invested during this period, preferred to invest in Istanbul. In fact, Istanbul has been the most favoured location for foreign investors since 1954 partly due to accessibility concerns. Furthermore, Istanbul has been a commercial and cultural centre through different historical periods. This historical role may also have played an important role for the location selection processes of FDIs since headquarters of big TNCs preferred to locate in those cities that have a cultural and historical prestige in the world. When invested sectors and home countries of TNCs are reconsidered, the chemical industry ranked the first among those sectors that preferred to select location in Istanbul; following that, the banking and finance sectors were in the second rank during this period. In the case of Istanbul, the FDI in the first rank is realised not by a single country of origin, but by a group of countries.

Kocaeli and Bursa were also densely invested cities in this period with 255 trillion TL and 371.9 trillion TL, respectively. In addition to their local potential for drawing foreign investments, these cities are located in the hinterland of Istanbul. This fact constitutes a very important comparative advantage for these cities due to scale economies. The Netherlands was the most investing home country. The rubber industry and other chemical industries invested extensively in Kocaeli. On the other hand, French origined TNCs mostly invested in Bursa, their investments were in the motor vehicle industry (Figure 1).

Ankara, as being the capital city, attracted only 2,5 % of total foreign direct investments, and investments were mostly in the motor vehicle industry. In the case of these investments, The Netherlands was once again the most investing home country between 1946 and 1975.

Figure 1: Locational distribution of invested capital by TNCs (1946-1975)



Source: Sat, 2005.

Locational specialisation can be observed in the investments during this period clearly. In other words, certain sectors located only in one city, such as the iron and steel industry in

Zonguldak; the agriculture industry in Amasya; the mining industry in Eskisehir; further, the textiles, non-iron metallic, rubber, and manufacturing industries in Kocaeli; restaurants, hotels, non-electrical machinery, and electronic industry as well as the banking and finance services located in Istanbul. The existence of locational specialisation strengthens Dunning's (1988, 1994, 2000) proposition of that locational preferences of TNCs have been affected by the attractiveness of particular localities based on their resources, labour, and entrepreneurial capabilities to a considerable extent. In brief, FDIs concentrated in the industrial sector during this period; however, their effects on domestic production were limited.

2.3.2. Phase II: Transition to capital import and debt crises (1975–1979).

The 1970s witnessed significant economic, technological and political transformations throughout this period. Turkish economy was developing until 1974; however, all the positive developments were reversed after that time. Foreign trade was affected by the economic and political instability, and decreased remarkably during this period.

The policy of encouraging FDIs to invest in Turkey remained more or less unchanged between the years of 1975-1979, but the FDI entries for this period were rather low. The possibility of finding and using foreign loans with low interest rates in the form of Convertible Turkish Lira Deposits (CTLD) led to postponing the adjustment programs that were needed to cope with high and unsustainable current account deficits. This did not contribute to economic performance either (Kazgan, 1999, p.129). The reason for the decline in the economic performance of the country was also related to currency speculation with a currency depreciation in sight. Entrepreneurs used these loans in the financial capital markets as opposed to intensifying industrial production. A foreign exchange crisis broke out at the end of 1978.

Under the circumstances of this uncertain economic environment, the government and the Undersecretary to the Prime Minister's office, Mr. Turgut Özal, prepared an 'economic policy package' (announced on 24th January, 1980) to overcome imbalances in goods and factor markets, and to mobilise the IMF loans. This particular policy package, in fact, should be considered as being a *Structural Adjustment Program*. The State Planning Organisation (SPO) stated that this program provides solutions to the problems of technology, inadequate saving rates and difficulties in balance of payments (SPO, 1981, p.67).

The period between 1975 and 1979 is characterised by a very poor performance in industrial FDI in contrast to FDI related with banking and finance. There were only two cities that attracted investment in this period; i.e. Istanbul and Siirt. Istanbul attracted most of the TNCs, i.e. 71,4% in terms of invested TNCs' numbers, 99,9% in terms of total invested capital.

More specifically 99,8% of invested capital to Istanbul was in banking and finance sectors by Libya and Kuwait originated TNCs. On the other hand, Saudi Arabian and German TNCs in the food industry invested in Siirt.

2.3.3. Phase III: Transition to liberalised economy (1980 – 1989).

Liberalising foreign economic relations was the underlying theme of the economic policies implemented throughout this period. A new Act, "Act on the Promotion of Foreign Capital, no. 6224" was prepared to enable further investments in December, 1980. The chemical industry was the most frequently invested sector during this period, mainly owing to previous investments in this sector as a result of the import substitution policy. In other words, already existing firms generated a strong foothold in the chemical industry.

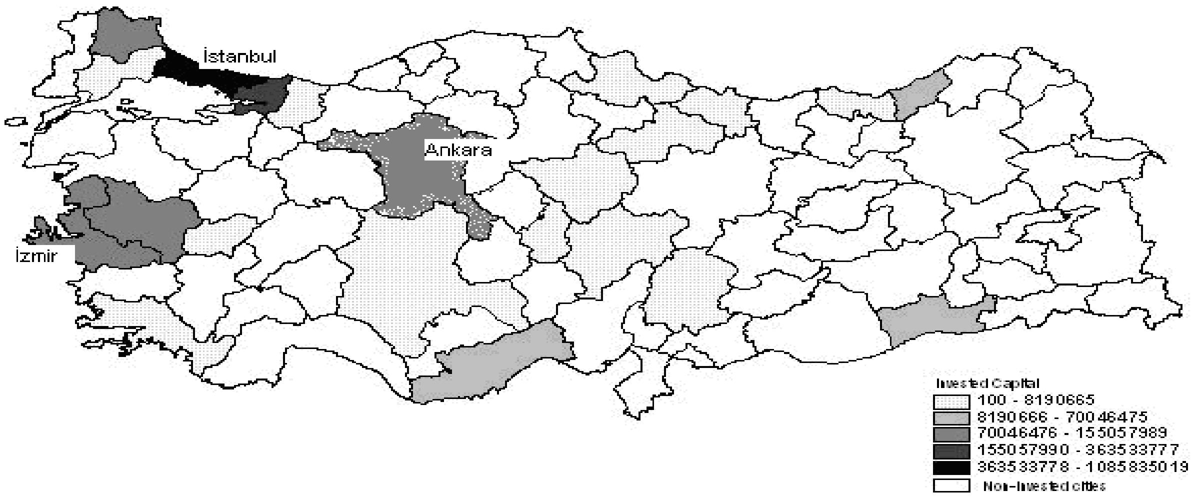
An increase in the number of TNCs as well as that of industrial sectors in invested cities can be clearly observed during this period (Table2). Basically, Western part of Turkey was preferred for FDIs. Regional inequalities between Western and Eastern parts of the country predominated in the locational preferences of TNCs. It has to be specified at this point; however, that in addition to limited public investments, the lack of locational advantages particularly with regard to natural resources, labour, and infrastructure also prevailed and were important for foreign direct investment decisions in eastern regions.

The economic policy package, dated 24th January 1980, put significant emphasis to foreign private capital investments as it was acknowledged that economic growth was further accelerated by drawing foreign investments. Towards this purpose, certain legal and institutional arrangements were carried out. Firstly, the government prepared a Framework Decree for FDIs in order to reduce the bureaucratic procedure for foreign investments. While this decree encouraged the establishment of small size enterprises, i.e. whose total fixed investment is between 2-50 million $; it also brought about the requirement of exporting products that were being produced by foreign investors in Turkey. According to this decree, 30 % of food products, 50% of textiles, 60% of forestry products, 40% of transport equipment, which were produced by foreign investors, had to be exported to the foreign countries (Kepenek and Yentürk, 2000, p.205). With the Act No: 6224 and this decree, foreign enterprises were encouraged especially in the finance sector as well as the agriculture industry, the tourism industry, and service sectors. As a result of these legal arrangements, the number of foreign firms was increased from 91 in 1979 to 165 in 1983. In 1984, state formulated and put into effect the policy of "build/operate/transfer" (BOT) in order to attract foreign capital to build infrastructure. According to these arrangements, foreign investors' consortiums with public sector entities could be established. Secondly, in August 1989, government further liberalised the capital account. With this policy, the government gave way to the use of foreign currencies both in domestic institutions and in individual enterprises. As a result of this policy and high financial returns in Turkey, there was an excessive inflow of foreign capital in the early 1990s (Corbo and Hernandez, 1996, p.64).

Although FDI inflows remained modest between 1980 and 1988, they later rose to a new height of 350-850 $ million range. This development can also be related to improved trade relations with Turkey and the EU within the context of efforts to establish a *Single Market*.

Locational proximity could still be considered as being an important factor in the locational preferences of African and Asian TNCs. For example, Syrian and Jordanian companies mostly preferred those cities that are in the southern and eastern parts of Turkey, such as Kahramanmaraş, Hatay, Icel, Adana, Gaziantep, and Diyarbakir in addition to Istanbul. On the other hand, European and American TNCs continued to prefer mostly those cities that have large populations and better economic indicators.

Figure 2: Locational distribution of invested capital by TNCs (1980-1989)



Source: Sat, 2005.

Contrary to the previous periods, there was a great increase not only in the invested cities and invested capital, but also in the invested sectors during this period. Except for a few eastern Anatolian cities, almost all provinces of the country were preferred as investment locations by foreign entrepreneurs. Istanbul, Kocaeli, Manisa, Kirklareli, Izmir, Eskisehir, Bursa, Icel and Ankara were the most frequently preferred cities. Table 3 indicates that Istanbul attracted 50% of total invested capital (1085.8 trillion TL. of 2114 trillion TL.). Most frequently invested sectors were finance and banking along with trade. Germany was the home country for the majority of FDIs. Kocaeli, which is in the hinterland of Istanbul, was in the second rank in terms of attracting foreign capital (16,5% of total investment). The chemical industry was the most frequently invested sector and the Netherlands was the home country for the majority of FDIs.

Table 3: Most preferred locations, sectors and investing countries in 1980-1989

Invested city	Total invested capital (trillionTL)	% in total investment	Most investing country	Most preferred sector
Ankara	64.9	2,9	Mixed (Netherlands)	Food industry, Avionics
Bursa	71.9	3,3	Switzerland	Food industry
Eskisehir	76.7	3,5	USA	Plane industry, Manufacturing industry of motor vehicle
Istanbul	1085.8	49,2	Mixed (Germany)	Finance and other services, Trade
Izmir	87.0	3,9	Saudi Arabia	Iron and steel industry, Tobacco industry
Kirklareli	97.6	4,4	USA	Glass industry
Kocaeli	363.5	16,5	Mixed (Netherlands)	Other chemical products
Manisa	155.1	7,0	USA	Food industry
Icel	70.1	3,2	Panama	Apparels
Total	2114	93,9	-	-

Source: compiled from www.treasury.gov.tr (21.06.2004)

Previously the cities of Manisa and Kirklareli had not been preferred as investment locations. However, significant investments were realised in these cities during this period. These investments; however, were done in a single sector and, therefore, by one home country in each case. Namely, approximately 88% of total investment came from an American TNC (Coca-Cola) in the food industry in Manisa. On the other hand, 100% of total capital investment came from an American based TNC (Trakya Cam Sanayii) once again in the glass industry. This situation can be interpreted; however, as being a possible ‘TNC-local’ interaction, i.e. either local source attracted these particular TNCs or certain reciprocal relationships between the TNCs, and their local partners were effective in investment decisions. Ankara, the capital city of Turkey, only attracted 3% of the total invested capital in this period. The most frequently invested sectors were the food industry and avionics. Once again, most frequently investing home country was the Netherlands. Corollary to the ongoing developments in the world, in addition to investments in the industrial sectors, service sector investments increased dramatically. Moreover, some of the sectors such as the glass industry, printing and particularly personal services invested for the first time in this period.

2.4. Fourth period: The Global World Market and Integration to the Newly Emerged Networks (The 1990s)

The 1990s was the period of major structural transformations at the international level. This period witnessed the collapse of the former communist countries and the opening up to market-led economic policies. These events had repercussions in the political, economic, and social structures of Turkey as well.

In a more competitive global international market, all economic activities were realised more freely –such as the flow of goods, factors, and ideas in borderless space (Castells, 1996, p.283). Parallel to developments in the communication and information technologies, organization of economic activities among firms, institutions and nation-states changed, too. The world has become a *flow of space* as cross-border flows of capital, products, people and money determine the new economic space (Harvey, 1989, p.213).

Hirst and Thompson (1996, p.67) assumed that “the power of nation-sate as administrative and policy-making agencies has declined, while the state’s role as an economic manager is decreasing”. On the other hand, Weiss (1996) argues that the role of nation-state has been “changing” in these years and she was concerned about the adaptability of states, their differential capacity, and the enhanced importance of state power in the new international environment.

Turkey has signed the Act of GATT Uruguay Round in 1993. In addition, Turkey had to decrease the tariff rates on commodities by 10% each year during the period 1989 – 1992. Furthermore, Turkey promised to adopt the Common Customs Tariff of the Community over time (Togan, 1994, p.27) and adhered to this tariff regime in 1996 by the eventual Customs Union Agreement between Turkey and the EU. With the effect of these developments, the ratio of foreign trade in GNP increased from 15% to 45% from 1980 to 1990 (Kazgan, 1999, p.180).

Parallel to trade liberalisation “Export Processing Zones” (EPZs) policy was again taken into consideration in 1985, i.e. after the experiences of 1927 and 1950, in order to create an attractive investment area for foreign enterprises. The first EPZ was founded in Mersin, following that twelve more EPZs (in Antalya, Ege, Istanbul-Ataturk Airport, Trabzon, Istanbul -Leather, East Anatolia, Mardin, Istanbul Stock Exchange (IMKB)- Stock Exchange, Izmir - Menemen Leather, Rize, Samsun and Catalca) were established in ten years. In 1998, there were seven new EPZ to be established (Gözlem, 1998, p.6). The number of the foreign firms in these regions in 1998 was 1541, whereas the number of domestic firms was 314. Limitations and taxes were kept at minimum levels so as to encourage foreign capital to choose location in these zones.

In these years foreign enterprises mostly preferred to invest in the manufacturing industry (56,9 %). On the other hand, sector in the second rank of preference was the services during these years (40,5 %). 1980 was the year in which the highest percentage of investment in manufacturing sector was realised (Table 4).

When the distribution of FDIs among home countries between the years 1980-1998 was taken into consideration, the highest sums of investment come from France with 5.212,82 million $. The sums of US, and the Netherlands were very close to each other and they were in the second rank with 2.718,16 million $ and 2.705,13 million $. Germany, Switzerland, the UK, Italy and Japan were other countries with high amount of investments.

Table 4. Distribution of foreign investment in terms of sectors

Years	Manufacturing		Agriculture		Mining		Services		TOTAL	Realised FDI
	$	%	$	%	$	%	$	%		
1980	88,76	91,51	0,00	0,00	0,00	0,00	8,24	8,49	97,00	35
1981	246,54	73,05	0,86	0,25	0,98	0,29	89,13	26,41	337,51	141
1982	98,54	59,01	1,06	0,63	1,97	1,18	65,43	39,18	167,00	103
1983	88,93	86,56	0,03	0,03	0,02	0,02	13,76	13,39	102,74	87
1984	185,92	68,51	5,93	2,19	0,25	0,09	79,26	29,21	271,36	162
1985	142,89	60,94	6,37	2,72	4,26	1,82	80,97	34,53	234,49	158
1986	193,47	53,15	16,86	4,63	0,86	0,24	152,81	41,98	364,00	170
1987	293,91	44,86	13,00	1,98	1,25	0,19	347,08	52,97	655,24	239
1988	490,68	59,80	27,35	3,33	5,62	0,68	296,87	36,18	820,52	488
1989	950,13	62,84	9,36	0,62	11,86	0,78	540,59	35,75	1.511,94	855
1990	1.214,06	65,23	65,56	3,52	47,09	2,53	534,45	28,72	1.861,16	1.005
1991	1.095,48	55,69	22,41	1-14	39,82	2,02	809,55	41,15	1.967,26	1.041
1992	1.274,28	70,02	33,59	1,85	18,96	1,04	493,13	27,10	1.819,96	1.242
1993	1.568,59	76,02	21,05	1,02	11,37	0,55	462,38	22,41	2.063,39	1.016
1994	1.107,29	74,94	28,27	1,91	6,20	0,42	335,85	22,73	1.477,61	830
1995	1.996,48	67,95	31,74	1,08	60,62	2,06	849,48	28,91	2.938,32	1.127
1996	640,59	16,70	64,10	1,67	8,54	0,22	3.123,74	81,41	3.836,97	964
1997	871,81	51,95	12,22	0,73	26,70	1,59	767,48	45,73	1.678,21	1.032
1998	1.021,00	62,04	5,75	0,35	13,73	0,83	605,29	36,78	1.645,77	539
TOTAL	13.569,35	56,89	365,51	1,53	260,10	1,09	9.655,49	40,48	23.850,45	11.234

Source: YASED, 1998, p.7

Table 5: Mostly invested cities, invested sectors and home countries after 1990

Invested city	Total invested capital (trillionTL)	% in total investment	Most investing country	Most preferred sector
Adana	34.9	0,2	Netherlands	Other industrial products
Ankara	2268.7	11,8	Belgium	Energy
Antalya	140.3	0,7	Germany	Hotels
Bursa	544.9	2,8	Spain	Iron and steel,Auto parts industr.
Corum	14.5	0,1	England	Other industrial products
Denizli	11.5	0,1	Liechtenstein	Cement
Eskisehir	22.2	0,1	Germany	Auto parts industries
Icel	85.3	0,4	Israel	Textiles
Istanbul	14009.3	72,7	England	Banking and other finan. services
Izmir	441.5	2,3	Mixed	Investment finance
Kayseri	10.2	0,1	Switzerland	Textiles
Kocaeli	885.2	4,6	Japan	Auto parts industries
Manisa	107.0	0,6	Germany	Measurement & control equip., Optical equip.
Mugla	14.5	0,1	Germany	Other social services
Sakarya	459.8	2,4	Japan	Auto parts industries
Tekirdag	129.7	0,7	Mixed	Energy
Total	19247.0	99,7	-	-
General Total	19259.7	100,0	-	-

Source: compiled from www.treasury.gov.tr (21.06.2004)

After 1990, almost all provinces of the country were investment locations, excluding Eastern Anatolian cities and several Black Sea region cities. Total invested capital between 1990-2003 is 19260 trillion TL and 99,7% of these investments went to 16 cities. In fact, two particular locations were preferred by TNCs. The first one was the metropolitan cities and their hinterlands, such as Istanbul, Ankara and Izmir. The second one was the costal zones, namely, Mediterranean and Black Sea regions (Table 5).

Istanbul and its hinterland attracted most of the TNCs with 82,6% of total invested capital after 1990. Indeed, 72,7% of these investment went to Istanbul as a continuation of earlier locational preferences. Kocaeli, Bursa and Sakarya, which take place in the hinterland of Istanbul, attracted most of the FDIs. While Istanbul was mostly selected for the service sectors, i.e. banking and other financial services, its hinterland was generally preferred for manufacturing activities, such as the auto parts auxiliary industries. Bursa, for example, in addition to the auto parts industries, has also been a location for iron and steel industry. This sectoral difference between Istanbul and its hinterland can be explained by a new spatial division of labour, which attracts the manufacturing industries to the hinterland of Istanbul, where head offices of TNCs as well as financial and service sectors have concentrated. At this point, the significance of sectoral specialisation should also be emphasised.

Figure 3: Locational distribution of invested capital by TNCs after 1990

Source: Sat, 2005.

Ankara and its hinterland attracted 12,1% of total TNCs investments after 1990. In spite of being the capital city, the capacity of Ankara to attract FDIs was very limited when compared to Istanbul (72,7%). Other important invested locations were in the Mediterranean and Black Sea costs. Tourism potential of the Mediterranean region and agricultural potential of the Black Sea region were the main factors affecting TNCs' locational preferences.

Germany was one of those home countries that invested most frequently after 1990. German originated TNCs generally preferred to invest in the middle-eastern and eastern Anatolia, whereas a number of other TNCs have concentrated in the Southeastern and Eastern Marmara, Aegean and Central Anatolia regions. Finally, it should be specified that locational preferences of TNCs were also affected by two issues throughout this period. These issues are namely ethnic ties and spatial proximity between the home country and the city. More specifically, Georgia has ethnical ties especially with the population of Artvin, and Georgian originated companies frequently invested in this city. On the other hand, Iraq most frequently invested in Sirnak, the Russian Federation invested in Rize and Trabzon, whereas Azerbaijan invested in Malatya, Erzurum and Kars, and Israel invested in Icel, a Mediterranean city, that is in the southern Anatolian region of Turkey.

3. Conclusion

Throughout this paper, the evolution of FDIs in Turkey have been analysed within the framework of host country perspective. The results of the study are very similar to previous studies and clarify the fact that host country policies are quite significant in TNC investment decisions and their locational preferences. Until the beginning of 1980s, when liberal economic policies were initiated in Turkey, the foreign investment inflows had been very limited in terms of capital and location. Along with liberalisation policies, the number of FDIs, i.e. mostly of European origin, has increased drastically in the country. Further, Istanbul has been the most frequently invested city, when compared to the other cities of Turkey.

An important point with regard to locational preferences of TNCs in Turkey is the fact that TNCs tend to concentrate in those areas with three distinctive characteristics. First, metropolitan areas that contain high-unsupplied markets and adequate infrastructure are preferred by TNCs, e.g. Istanbul, Izmir and Ankara. Second, coastal areas with high tourism potential provide attractive characteristics, e.g. Antalya, Mugla, Aydin along with Istanbul and Izmir. The headquarters of TNCs prefer to select location in those cities that have cultural and historical prestige in the world. In addition to trade and service investments, these metropolitan areas also get a crucial share of tourism investments. Some of them are, particularly Istanbul, world heritage cities due to their archaeological and natural values. Finally, agricultural or industrial areas that contain plenty of raw materials and cheap labour are also preferred by TNCs, e.g. Icel, Rize, Malatya for foreign direct investments. Metropolitan areas, namely, Istanbul, Izmir and Ankara provide the most attractive locations for foreign investors. In fact, these cities maintain significant economic and cultural resources. They also provide access to domestic markets, due to their effective transportation and communication systems. Moreover, their geographical proximity to home countries of TNCs constitutes a very important factor for location selection decisions.

All in all, this historical analysis shows that TNCs always prefer to select location in those areas that provide access to markets and contain significant infrastructure, labour, and raw material resources in each period. In this sense, they tend to prefer metropolitan areas, coastal cities along with industrial and agricultural areas for their FDIs. On the other hand, the impact of government policies is also very crucial according to the results of the study. Following the period of foreign trade liberalisation, in the 1980s, the number of foreign investments has increased enormously and generally, these new comers have chosen to invest in industrial production in order to benefit from the markets. Furthermore, the prior investors have started to develop subsidiaries and to operate especially in the service sector. The shift from manufacturing to the service sector along with accompanying increase in the number of subsidiaries indicates growing trust in the economic and political stability of Turkey.

ENDNOTES

[i] According to researchers these theories were static and Wheeler and Mody (1992:58) are called these classical theories as "ergodic", on the other hand theories developed with the evolutionary responses are called as "non-ergodic". An ergodic system returns to its initial state when initial conditions are replicated, whatever the interim history. A non-ergodic system, by contrast, can exhibit strikingly different and irreversible evolutionary responses to small changes in initial conditions (Caves (1982), Dunning (1988), Markusen (1981), and etc.).

[ii] See particularly the impact of WTO agreements and dispute settlements on the locational decisions of MNCs, as documented by Brewer and Young (1999).

[iii] Notably, wage levels, demand patterns, policy related variables, supply capabilities and infrastructure.

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