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# **Spoilt for Choice: Explaining the location choice of Turkish Transnationals<sup>§</sup>**

by

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# **Spoilt for Choice: Explaining the location choice of Turkish Transnationals**

## **Abstract**

The investments of Turkish entrepreneurs to other countries increased in the 1990s. This paper explores Turkish FDI abroad focusing on the factors influencing the FDI decision and location choice, using micro data collected from investor firms. A micro level data set for the Turkish FDI abroad is constructed using the information gathered through questionnaires conducted at some selected firms, which have engaged in FDI abroad. The data is explored using statistical and econometric techniques by grouping the countries based on their geographical location. Among the factors that determine the location choice of investors access to consumers and suppliers, market penetration; the presence of Turkish firms and Turkish population, and similarity to Turkey; trade opportunities and preferential trade agreements; together with labour costs and availability of skilled workers affect the location choice of Turkish transnationals.

**Key words:** outward foreign direct investment, location choice, Turkey

**JEL Codes:** F23, C25

## **1. Introduction**

As many other developing countries, Turkey has liberalized her current and capital accounts in the 1980s. The capital inflows have not reached expected levels until 2000s. Nonetheless, inflows of especially foreign direct investment (FDI) have increased competition in the domestic market and the competitiveness of Turkish firms abroad. Following the collapse of the Soviet Union, the newly established states of the Central Asia, including Russia, have become an attraction for Turkish entrepreneurs, who wish to trade and invest in 1990s. Therefore, the outward foreign direct investments from Turkey increased more as Turkish firms gained experience in foreign markets and as competition in the domestic market increased with more inflows of FDI.

This paper aims to investigate the main factors that affect the location choice of Turkish transnationals abroad. In order to determine these factors, we use survey data gathered through a questionnaire designed specifically for this purpose. The main motivations of investing at a certain location (country in our case) were asked to the managers responsible from foreign investments, foreign markets or from planning for 126 investments of Turkish firms. The data is explored further using statistical and econometric techniques in the light of in-depth interviews with managers of 17 investing firms. The host countries have been grouped -based on their geographical location as EU, Middle East and North Africa, Transition Economies (TE) and Others to use in econometric analysis. We employ principle component analysis to reduce the data and multinomial logit estimation to identify the determinants of location choice.

The paper is designed as follows: Section 2 introduces the theoretical framework with reference to the most relevant literature. Turkish outward foreign investments are examined with a historical perspective in section 3. The following two

sections explain the data and the methodology, respectively. Findings are revealed in section 6 and the paper concludes with a summary of results.

## **2. Theoretical Framework**

The main motivations of FDI firms have been classified as making use of ownership, location and internalization advantages by Dunning (1977), who has based his reasoning on Hymer (1976)<sup>1</sup>. Lecraw (1977) and Lall (1983) have pioneered research in terms of third world multinationals and foreign investments. Many economists have examined the reasons of FDI outflows from developed countries but the Southern outward FDI flows have attracted attention only recently (Chudnovsky and Lopez, 2000; Jaklic and Svetlicic, 2001; Varblane et al. 2001; Andreff, 2002; UNCTAD, 2004; Kumar, 2007; Wee, 2007; Witt and Lewin, 2007). UNCTAD (2006) report argues that the most significant motivation behind southern outflows of FDI is to do with the economic and somewhat political environment in the home country.

Studies on transition economies as the source countries have shown that smallness of domestic markets, increased competition stemming from liberalization of trade or capital flows, trade restrictions adopted by source or destination countries, access to natural resources or to suppliers, high labour costs in the home country and last but not the least economic instability and regulatory government policies have appeared as the most mentioned reasons of outward FDI. Svetlicic (2007) claims that escaping the economic restrictions adopted by the government has been the main motivation of Central and Eastern European firms. Slovene firms that

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<sup>1</sup>See Dunning (1981, 1986, 1988, 2000) and Dunning and Narula (1996) for details of these advantages.

have invested abroad have managed to escape domestic competition and have earned the foreign exchange desperately needed. Being close to customers in order to hold on to export markets is also an important determinant of outward FDI from transition economies (Svetlicic, 2004). For example, 76% of the 919 Slovene firms which has foreign investments in 2002 have chosen countries that they used to export as the host country (Jaklic et al., 2005). Wells (1983) has voiced a similar claim for third world countries: approx. 85% of third world outward FDI follows exports and especially in transition countries of Central Europe exporting is always the first move. As for the Latin American countries the most significant determinant of outward FDI is the smallness of source country markets (Andreff, 2002). Additionally, increased global competition have led firms to search production centers that will allow them to operate at lower costs and make use of scale economies and privatization opportunities as mentioned by Svetlicic (2004) to explain outflows of FDI from the Czech Republic, Estonia, Hungary, Poland and Slovenia.

Firms can use privatization opportunities to invest in near-by countries only by benefiting from the first-mover advantage. This strategy can be observed in the activities of Turkish firms in Central Asian Republics and in Russia. Turkish firms have not only exported to these countries but also taken contracting responsibilities, in many cases built the infrastructure and even shopping centers. These activities helped the managers to learn the workings of these countries and they discovered ways to smoothly run their operations. The experience they got from exporting and contracting activities allowed them to become the first-mover in investing to these countries or at least to move before most developed country firms. Examining the evolution of Turkish outward FDI gives evidence about how developing country firms respond to opportunities and decide on foreign investments.

### **3.Turkish FDI Abroad**

The liberalization policies adopted in the 1980s have made Turkish firms, which were highly protected from international competition, prone to competition from foreign firms in their domestic market. From mid-1980s onwards, the import regime was simplified and restrictions were removed gradually. In order to obtain foreign exchange needed for imports, the government had to increase exports and therefore, adopted policy measures such as export subsidies to promote exports<sup>2</sup>. Firms, which have developed some competitive advantages under the protective cover of import-substitution regime, entered the foreign markets making use of the export-promotion measures. Figure 1. shows the evidence for that development. We see that Turkish exports have picked up from 1980s onwards following the liberalization policies adopted as part of the structural adjustment programme with the World Bank and the IMF that changed the course of the Turkish economy from import-substituting industrialization to export-led growth strategy.

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**Put Figure 1 here**

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Liberalization policies not only incorporated liberalization of the price setting mechanism but also privatization of publicly owned companies (called State Economic Enterprises-SES). This, combined with the export promotion strategy of the Turkish government, increased competitiveness of Turkish private sector. Privatizations helped in improving this capability because many high capacity-high technology SESs were bought by the domestic private firms transferring the know-how and technology to the private sector. Together with export subsidies, liberalization policies increased the

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<sup>2</sup>Tax rebates, export credits, corporate tax deduction, freight subsidies, advance payment scheme, VAT exemption and foreign exchange retention and allocation were used as tools to increase exports. The total share of export subsidies and offsets in the f.o.b. price of exports increased from 17.2% to 36% in the period of 1980-1989. Source: Authors' calculations using the figures given by Kruger and Aktan (1992), in Table 14 (p.74).

competitiveness of Turkey. Figure 2 depicts the changes in competitiveness of Turkey in terms of the most competitive economic activities. The vertical axis shows the revealed comparative advantage index values<sup>3</sup>, which indicate the extent of a country's specialisation in an individual industry. A value above unity indicates an industry in which economy's share of exports exceeds its average share in all industries: that is, an industry in which economy *i* specializes. If the countries are increasingly specialising in subsets of sectors, we would expect to observe the revealed comparative advantage systematically increasing in some industries and systematically decreasing in others (Proudman and Redding, 2000).

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**Put Figure 2 here**

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Turkey's comparative advantage in mineral fuels, lubricants & related materials, in non-ferrous metals, in chemicals & related products, and in machinery and transport equipment have not changed much in the 1980-2002 period whereas we observe a decrease in the comparative advantage of agricultural products and food, in crude materials of agriculture and in crude ores and fertilizers<sup>4</sup>. Although textiles and apparel constitute a significant place in her exports, Turkey has not become more advantageous in terms of textile yarn, fabrics, made-up articles related products but her comparative advantage in articles of apparel and clothing accessories has increased in time (Figure 2). As shown in this figure, the iron and steel sector, which used to be almost wholly state owned and has become the most important export commodity in the 1990s and 2000s following privatizations and export promotion measures, has become competitive in mid-80s and remained so for more than a decade.

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<sup>3</sup>The index values have been calculated with the Proudman and Redding (2000) formulation. In this formulation the average comparative advantage for a specific year is always 1.

<sup>4</sup> Changes in the revealed comparative advantage of these sectors can be calculated using the UNCTAD data or simply obtained from the authors.



Firms that have discovered opportunities in foreign markets through learning-by-trade started investing in those locations from 1990s onwards. Figure 3 shows this change of course for outward FDI stock of Turkey. It is clear that outflows increased first gradually since 1991 and accelerated after 1998.

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**Put Figure 3 here**

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The composition of outward FDI has changed after the collapse of the Soviet Union. Table 1 shows the change in shares of main activities in the outward FDI stock for 1980-1990 and 1991-2004 periods. Until 1991 the outward FDI stock has mainly concentrated in banking and wholesale/retail trade activities (see Table 1). However, in the 1991-2004 period 22.5% of the outward FDI has gone to manufacturing<sup>5</sup>. Share of banking in outward stock has decreased from 65.4% to 19.6% and similarly construction has gone down to 1.2% from 6.7%.

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**Put Table 1 here**

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Following the political changes in the former Soviet Union and establishment of new states in the Balkans and the Central Asia, Turkish firms with the help of the government made connections in those countries and started trading. Many delegations attended official meetings and contributed to expanding bilateral economic relations between countries<sup>6</sup>. For instance, some Turkish construction companies were given projects in Russia directly and with the orders from Russian government officials (not through bids etc.) as a byproduct of these visits. Turgut Özal, as prime minister

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<sup>5</sup>Authors calculations using data obtained from Turkish Undersecretariat of Treasury.

<sup>6</sup>In 1986, Foreign Economic Relations Board (DEİK) of Turkey was established as a semi-governmental body with the role to “coordinate the private sector in foreign relations and opening up of Turkish companies to external markets”, “to guide the private sector” and “organize meetings and form business delegations to attend official international visits”.

from 1983 to 1989, promoted foreign trade capital companies and tried to regulate exports by allocating export opportunities between Turkish companies so that they would not compete with each other.

Some firms that have undertaken construction or infrastructure projects ended up running companies there. For example, TEKFEN Group has such an experience in Uzbekistan. They have acquired HMB, which was the largest construction company in East Germany, and has undertaken the construction project of a cotton yarn production plant in Uzbekistan. Following the construction of the plant, Uzbekistan Central Bank offered joint-venture to Tekfen and Papfen Joint Stock Company, which produces and exports high quality cotton yarn was established in 1997<sup>7</sup>. These types of opportunities have opened up new markets to the Turkish firms in which they could either produce and sell or import and sell their goods produced in Turkey. Later some of these firms entered new lines of business making use of the opportunities offered by the privatizations in these countries.

In general, Turkish outward FDI has concentrated in energy and manufacturing industries followed by banking and other financial services in mainly the Netherlands, Azerbaijan, UK, Germany, Kazakhstan and Luxembourg. Table 2 shows the distribution of Turkish OFDI between countries in 2007.

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**Put Table 2 here**

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The sectoral distribution of FDI actually determines the possible host countries. Turkish OFDI stock has concentrated in energy, manufacturing and financial services (see Table 3). Therefore, most of the energy investment has gone to Kazakhstan and

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<sup>7</sup>Today, Tekfen owns 85% of Papfen.

Azerbaijan, resource-rich countries of the Central Asia. OFDI in manufacturing has a relatively more even distribution in terms of country choice. Investments in Banking and Financial Services have agglomerated in finance centers such as the Netherlands, Virgin Islands and Luxembourg. Northern Cyprus has the largest share of OFDI in insurance services (45.1 %) followed by Germany (29.9 %) and Azerbaijan (21.4 %). Netherlands is also a major center for Turkish investments in trade (25.4 %) and telecommunications (73.6 %). The second in line is UK with a share of 13.8 % of trade related OFDI followed by Luxembourg with 10.7 %. OFDI in tourism has been highly concentrated in Kazakhstan (38.9 %) and Germany (16.1%). Georgia (37.4 %), Germany (28.7 %) and Switzerland (17.8 %) have relatively larger shares of transportation investments.

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**Put Table 3 here**

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#### **4.Data**

FDI studies vary depending on the theoretical framework they adopt and empirical methods they use. Most studies focus on macro variables and those that choose to adopt a micro approach are limited due to data restrictions. In this study, we use the micro data obtained from a survey conducted with Turkish transnationals. The survey is designed to explore the main determinants of location choice for Turkish outward FDI and the specific locations selected under these criteria.

The list of companies to be included in the survey was obtained from the Undersecretariat of Treasury. The records revealed that there were approx. 700 firms with foreign investments abroad<sup>8</sup>. We checked the information provided by the Treasury

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<sup>8</sup>Until 2007, export of capital was subject to permission from the Undersecretariat of Treasury. A decree issued towards the end of 2006 liberalized outflows of Turkish capital effective from 2007. Therefore,

and found out that the list was not up-to-date and some of the firms had only undertaken construction projects that ended long ago. Therefore, the survey was planned to include the top 225 firms which actually made up approx. 70% of total Turkish outward FDI stock at the end of 2005 (Apan, 2006). The firms were asked to fill in the questionnaire either online, through e-mail or in-person and most were contacted personally to ensure a high response rate. The response rate was approx. 48% and some companies filled the questionnaire for more than one foreign investment. Therefore, the data we obtained cover 126 investments of which 25.83 % have been made in 1995-99; 40 % in 2000-2004 and 24.16 % in the 2005-2008 period<sup>9</sup>. 73.3 % of these investments has gone to Europe and Central Asia; 14% to Middle East and North Africa. Production activities constitute 42.6% of investments whereas 57.4 % is in non-production activities (28.7 % store or outlet; 14.8 % office; 9 % warehouse or depot and 4.9 % raw materials). The respondents report that 45 % of investments target only host market; 26 % target host and other export markets; 12 % target all markets including Turkey; 6 % target only export markets.

Greenfield investments constitute only 43 % of investments and firms choose this type of FDI because of the high market potential of the host country, investment subsidies provided or to utilize ownership advantages of the firm. The data reveals that firms choose merger and joint venture, which constitute 35.3 % of the total responses, to make use of the economies of scale, to avoid legal barriers and risks, to decrease investment risk, to utilize the experience of domestic partner and to decrease the number of competitors. Privatization or acquisition compose 11.2 % of investments and 10.4 % are in the form of a branch in the sample.

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Treasury kept records of companies that applied for permission but not all of these outflows were realized.

<sup>9</sup> These percentages are the shares of total number of investments (126) not the value of outward FDI stock.

The responding firms vary from a trading company in Romania with only 2 workers to an oil-extracting company in Azerbaijan with 20 000 workers. The range of activities these 126 firms engage in differ in terms of industries from agriculture to tourism. The distribution of respondents according to industry is given in Table 4.

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Among the factors that affect investment decision, investors name host and neighbouring country markets and access to raw materials and intermediate inputs but unionization, infrastructure services, bureaucracy, trade relationship prior to investment, presence of Turkish firms, strategic and technological factors are deemed as not so important. On the contrary, economic, social and political stability; openness; foreign capital legislation, investment promotion measures and subsidies in addition to cultural ties with Turkey -although not very high in the rankings- have been considered as important by investors.

Investors consider political instability that includes cumbersome bureaucracy, risks of war- civilian turmoil and nationalization as the main risk factor followed by economic instability which means exchange rate volatility and inflation risk, currency convertibility, interest rate volatility. The third most important risk factor appears to be the investment legislation in the host country.

## **5. Methodology**

In examining the location choice of Turkish transnationals we employ multinomial logit models, mostly used to model choice between two or more alternatives with no preference in favour of one. In these models, the economic agent is assumed to

choose the alternative that maximizes its utility (profit, etc). If an alternative  $s$  is chosen then it means that the benefit  $s$  provides to the agent is greater than the benefit all other alternatives provide. The model is estimated using maximum likelihood function. Parameter estimates obtained using multinomial logit models are evaluated with respect to the reference category that is normalized.

Following the multinomial logit estimation, we make use of the marginal effects to interpret the factors that affect the location choice. The marginal effects calculated for continuous variables show the impact of a marginal change in a specific variable on the probability of an alternative to be chosen given that all other variables are at their mean values. On the other hand, the marginal effects calculated for shadow variables show the difference in the probabilities of an alternative or another to be chosen given that all other variables are at their mean values.

The analysis has two stages. First, we calculate the probability of a specific location to be chosen for all firms and later we compare the means of these probabilities with the observed distribution. If the probability means overlap with the actual distribution then the model is said to have a high estimation power. Additionally, we adopt another approach commonly used: calculating the ratio of accurate estimations by the model. In this approach, probability of each firm being placed in a specific category is calculated for all firms and the firms are estimated to choose the alternative with the highest probability. Later, these estimates are compared with the actual category choices and the accuracy rate is calculated.

In order to prevent the problems that the unbalanced distribution OFDI between countries in the data set could cause we had to form groups of countries to eliminate

any bias that can arise<sup>10</sup>. Distribution of observations between categories (or groups in our case) is important because, as mentioned earlier, in the multinomial logit models the regression results are evaluated with respect to the reference category. If a category dominates the others in terms of number of observations then the probability of choosing that category will appear higher and the categories with lower number of observations will have lower probability to be chosen. The closeness of estimates to actual data can be achieved with a balanced distribution. Hence, the host countries are grouped according to geographical location and the geographical distribution of OFDI is given in Table 5.

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**Put Table 5 here**

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Investors mention the main purpose to invest abroad as to access markets whereas the least important aim is decreasing transportation costs. Access to intermediate inputs and technology are close to the bottom of the list. Escape from economic instability in Turkey is not a significant motivation for OFDI.

In the survey, the respondents were asked to rank the factors that affect the choice of country to invest in a Likert scale of 5 among 51 different factors given to them. In order to quantify and use the response of the firms in econometric analysis the number of factors, taken as the variables, had to be reduced and classified. Therefore, factor analysis is applied as a data reduction method. In the process, principle component analysis is used for extraction of factors and varimax with Kaiser normalization as the rotation method<sup>11</sup>. Factor loadings are then evaluated in determining which variables to be considered for each new factor. At this stage

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<sup>10</sup> The geographical classification of host countries is given in Appendix Table A1.

<sup>11</sup> The varimax rotation amounts to a variance maximization of the original variable space. The variance extracted by the factors are called eigenvalues. See Jackson (2004) for an overview of the principle component analysis.

variables are included in factors that they have a factor loading greater than 0.5. The rotation that has a 86.06 % explanatory power for the economic variables and 90.18 % explanatory power for the institutional variables have been chosen<sup>12</sup>. In this rotation, five economic factors, i.e. market penetration, investment climate, trade opportunities, infrastructure and production possibilities, and three institutional factors, i.e. institutional environment in the host country, living conditions and similarity to Turkey, are formed (Tables A2 and A3 in the Appendix show the variables and factor loadings).

## **6. Findings**

In this section we construct a model, which instead of analysing each topic one by one combines data from all relevant questions and examines all factors that may be significant in determining the location choice of Turkish transnationals. We use multinomial logit estimation and test the explanatory power of each factor for the country groups previously determined. We have estimated a number of models using different combinations of the factors that might affect location choice. Here we report the best model, which is chosen depending on its explanatory power (as explained below), and that displays the investment behaviour reflected in the survey data.

In this model, as the factors that affect the country choice, we focus on investment legislation, access to consumers, access to suppliers, preferential trade agreement (PTA), availability of skilled labour, socially and politically stable environment, presence of Turkish firms in the host country, Turkish population in the host country, quality of skilled workers, labour costs, bureaucracy, neighbouring markets, economic instability, social and political instability (as a risk factor),

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<sup>12</sup> These figures show the percentages of cumulative variance explained by the chosen rotation and factors. The rotation has a higher explanatory power the higher the cumulative variance is.



similarity to Turkey, access to markets and trade opportunities. The parameter estimates can be seen from Table 6. The  $\chi^2_{51} = 157.44$  statistics shows overall significance of the model and the allocation of observations to different categories by the model are 80% in accordance with the actual data as seen from Table 7.

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In interpreting the estimation results we also make use of the marginal effects calculated for each continuous variable at the mean values of all other variables, presented in Table 8.

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The marginal effect of a variable shows the impact of a change in that variable on the probability of a category to be chosen when all other variables are at the sample mean values. Marginal effects calculated for shadow variables show the difference in the probabilities of the likelihood of an event to occur and not to occur. Using the marginal effects we see that the probability of an average firm to invest in EU countries is 53.81 % whereas that probability is 46.02 % for transition economies.

For firms that deem investment legislation an important risk factor considered in foreign investment decisions, the probability of choosing transition economies is 0.35 points lower (see row 1 column 4 of Table 8). On the other hand, firms that name neighbouring markets and economic stability among the top three factors they

consider in deciding the location of investment are less likely to choose transition economies by 0.72 and 0.49 points, respectively. The EU countries have a higher probability of being chosen by the same rate (Table 8).

Table 8 also shows that investors, who consider labour costs as important, are more likely to invest in transition economies by 0.47 points whereas EU countries are less likely to be chosen by the same rate. If firms give priority to the availability of skilled labour then the probability of transition countries being chosen as investment location increases by 0.42 points relative to the EU countries, whereas the quality of skilled workers does not seem to matter at the initial decision process. Firms that have invested in EU (MENA) countries have 0.55 (0.96) points less (more) probability to indicate bureaucracy as an important factor compared to average firms.

Increase in importance assigned to socially and politically stable environment decreases the probability of MENA countries to be chosen (Table 6). Turkish population in the host country appears to be a factor that increases the probability of EU countries to be chosen with respect to MENA and Other countries. Presence of Turkish firms and similarity to Turkey even in terms of the cumbersome bureaucracy, which Turkish entrepreneurs are quite used to and know how to grease the wheels of, lead Turkish firms to prefer the MENA and transition economies (relevant coefficients for these factors are all positive in Table 6). These findings are supported by the comments we got from the in-depth interviews<sup>13</sup>. RAM Foreign Trade Company owned by the KOÇ Holding<sup>14</sup>, Saray Carpets<sup>15</sup> and TEMSA<sup>16</sup> all

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<sup>13</sup> The list of companies interviewed and the most significant factors they acknowledge as important for their investments are given in the Appendix Table A4.

<sup>14</sup> Koç Holding is one of the largest and most successful groups of companies not only in Turkey but also in Europe. The group focuses on energy, automotive, consumer durables and finance as core industries. ([www.koc.com.tr](http://www.koc.com.tr))

acknowledge that similarities between the host country and Turkey, in terms of culture, religion and language have helped them in the process. Companies such as KURUM<sup>17</sup>, KALE Group<sup>18</sup>, TEMSA and KORDSA<sup>19</sup> mentioned bureaucracy and corruption as drawbacks they have come across in the process of investing and during their operations in the host countries. They all found ways to deal with these obstacles. KURUM emphasized that their honesty and timely payments they made to the suppliers have impressed the government of Albania and opened up new opportunities there.

On the other hand, firms seem to prefer outward investments to overcome the obstacles in access to MENA consumers compared to investing in the EU countries (Table 6). The possibility of MENA countries relative to EU countries to be chosen as FDI location by Turkish transnationals decreases when the importance of market penetration increases. RAM has chosen Russia for market penetration purposes. On the other hand, trade opportunities increases the likelihood of transition countries to be chosen. Contrarily, motivation to access to suppliers through FDI takes Turkish firms to transition economies rather than MENA region. Most of the companies which were interviewed emphasized trade restrictions in host countries as a reason to invest and transportation costs and trade opportunities for choosing the hosts. Especially, bulky goods that require high costs of transportation to be incurred or glassware as in the

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<sup>15</sup> Saray Hali is a joint stock company incorporated in Kayseri, Central Turkey has established Saray GmbH in Cologne, Germany and focused on the European market. The Company is exporting its products to 40 countries all over the world. ([www.saray.com.tr](http://www.saray.com.tr))

<sup>16</sup> Temsa, one of Turkey's leading automotive companies, manufactures and distributes Temsa brand buses and coaches in domestic and international markets. ([www.temsa.com](http://www.temsa.com))

<sup>17</sup> Kurum is one of the leading iron and steel producers in Turkey with investments in Albania and other Balkan states. ([www.kurum.com.tr](http://www.kurum.com.tr))

<sup>18</sup> Kale Group pioneered the formation of the ceramics industry in Turkey, and has grown over the course of time with investments in machinery and equipment manufacturing, defense, chemistry, electrical appliances, energy, IT, transportation, tourism and food industries.

<sup>19</sup> KORDSA Global is a leading company in nylon and polyester yarn, cord fabric and single end cord production, which serves the tire reinforcement and mechanical rubber markets. It has a leading position in the industry with 10 facilities in 9 countries. ([www.kordsa.com.tr](http://www.kordsa.com.tr))

case of ŞİŞECAM<sup>20</sup> or for vertical FDI where the goods are exported back to Turkey or where the main export markets are the European countries, as in the case of TEMSA.

## **7. Summary and Conclusion**

The multinomial logit regression model used to explain the determinants of location choice of Turkish transnationals reveal that the investor firms consider many factors ranging from labour costs and availability of skilled labour to similarities between the host country and Turkey.

Firms that pay more importance to labour cost prefer MENA and transition economies to EU countries. Transition economies also stand out in terms of availability of skilled workers. On the other hand, high transportation costs draw investors to closeby locations such as the EU. Investors that care for access to natural resources and suppliers are likely to choose transition economies to the EU.

In the case that market penetration is a priority for investors, they are more likely to prefer EU countries to transition economies. Whereas firms that find access to consumers as a major problem because of trade restrictions, transportation costs etc. choose their target markets for investments. These obstacles appear to be a major factor that draw firms to the MENA countries. For firms that deem neighbouring markets an important factor in location choice, transition economies are less likely to be preferred. Contrarily, in the case that trade opportunities are an important determinant for location choice then transition countries are favored to the EU.

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<sup>20</sup> Şişecam Group is an industrial group with the main activity fields of glass and chemicals production. Ranking between third to the seven in the world according to different sorting criteria, Şişecam is considered among the most distinguished manufacturers of the world in its field with the scale it has reached, its degree of specialization and strongly competitive activities. ([www.sisecam.com](http://www.sisecam.com))

Turkish firms are used to cumbersome bureaucracy and using their experience within the source country, they can find ways to grease the wheels of the system. Therefore, these firms are able to deal with bureaucracy in the MENA countries and thus can invest there to exploit the opportunities in the rest unlike most developed country companies. Firms that care for economic stability choose EU over Middle East and North Africa whereas those that care for similarity to Turkey invest in MENA. Also, presence of Turkish firms attract investors to the MENA and TE countries.

In conclusion, we can say that Turkish outward FDI chooses among the EU, MENA or transition countries depending on the main factors they regard important for investing abroad. Export oriented firms that want to decrease risks by differentiating their market portfolio and to penetrate into the markets prefer EU countries. Whereas firms that want to access markets and consumers choose MENA countries with preferential trade agreements, with low labour costs. Presence of Turkish firms in the host country and similarity to Turkey even in terms of bureaucracy attract Turkish investors to the MENA region. Access to suppliers, quality of skilled workers and trade opportunities draw firms to the transition economies. These results are in accordance with what the theory suggests and what previous studies on developing country transnationals have found.

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