

FOREIGN INVESTMENTS IN TURKISH TRANSPORTATION SECTOR

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—Abstract —

Foreign direct investments in Turkey have been accelerated by Law No 4875 which is foreign direct investment law for 2003. Besides, Turkey has important potential for foreign investors due to some reasons such as strategic location, high quality labor force etc. In this context importance of foreign direct investment has increased in Turkish Transportation Sector and other sectors.

Therefore, the paper's aim has shown status of the foreign direct investments in Turkish Transportation Sector. In this context, we have explained foreign investments in the world and Turkey. Then we have observed foreign investment

in Turkish transportation industry and future of foreign investments in the industry.

Key Words: *transportation, foreign direct investment, Turkey.*

Jel Classification: R4, F21

1. INTRODUCTION

FDI or foreign investment is generally defined as a firm purchases a firm in abroad, increases of its capital stock or exports technology or management knowledge. (Ateş,İ.; Bolukbas,M.,2011)Therefore; flows of FDI are contributing to build strong economic links between industrialized countries and developing countries, and also among developing countries.(Erdal, F.; Tatoğlu,E., 2002)

Global inflows of foreign direct investments are \$1,114 billion in 2009. For 2011, UNCTAD estimates FDI flows to be between \$1.3 trillion and \$1.5 trillion (UNCTAD, 2011a). In this context, the stock of FDI in Turkey was only \$300 million in 1971, and up until 1980 the average annual inflow of FDI was only \$90 million. Annual FDI flows in Turkey grew rapidly from the mid-1980s, reaching \$1 billion in 1990 (Öğütçü,M., 2002).

In addition to; potentially, Turkey is an attractive country for global investors. Turkey has a large and dynamic market with a relatively high quality labor force and economic location advantages with easy access to regional markets. (TUSIAD, 2004).

In this paper, we have explained foreign investments in the world and Turkey. Then we have observed foreign investment in Turkish transportation industry and future of foreign investments in the industry.

2. FOREIGN INVESTMENTS IN THE WORLD

Since early the 1980s, the changing international economic and political environment has led to a renewed interest in the relative merits of foreign direct investment (FDI) as means whereby less developed countries can achieve a

reasonable rate of economic growth (Tsai,P.,L., 1994). We have explained foreing investments in the world.

Table 1: FDI Flows by region and economy 2005-2010 (millions of dollars)

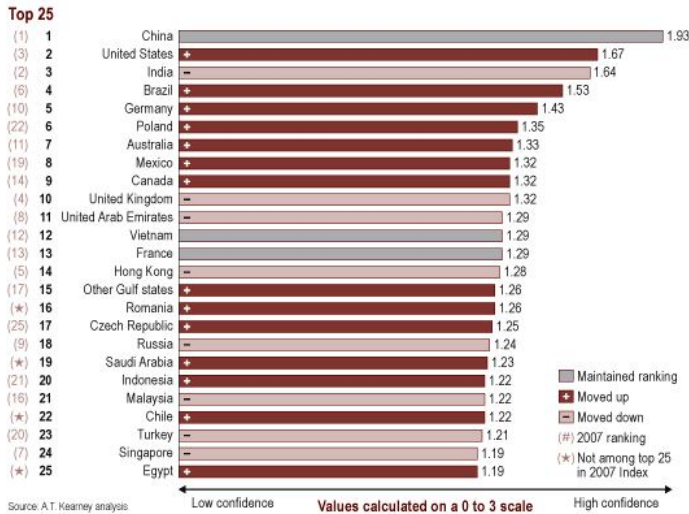
Region/economy	Years					
	2005	2006	2007	2008	2009	2010
World FDI Inflows	982.593	1.461.863	1.970.940	1.744.101	1.185.030	1.243.671
World FDI Outflows	882.132	1.405.389	2.174.803	1.910.509	1.170.527	1.323.337
Developed Economies FDI Inflows	619.134	977.888	1.306.818	965.113	602.835	601.906
Developed Economies FDI Outflows	745.679	1.154.983	1.829.044	1.541.232	850.975	935.190
Developing Economies FDI Inflows	332.343	429.459	573.032	658.002	510.578	573.568
Developing Economies FDI Outflows	122.143	226.683	294.177	308.891	270.750	327.564
South-East Europe and CIS FDI Inflows	31.116	54.516	91.090	120.986	71.618	68.197
South-East Europe and CIS FDI Outflows	14.310	23.723	51.581	60.386	48.802	60.584

Source: UNCTAD,2011b

In this context shown as Table 1, FDI Flows by region and economy in the world. According to Table 1, FDI flows decreased on the world in 2008 and continued to decline sharply in 2009 because of economic crisis. However, global foreign direct investment (FDI) inflows rose modestly in 2010, following the large declines 2008 and 2009, at \$1,24 trillion in 2010. In addition to FDI inward stock rose by 7 percent in 2010, reaching \$19 trillion, on the back of improved performance of global capital markets, higher profitability, and healthy economic growth in developing countries (UNCTAD,2011b).

However; showed 2010 FDI confidence index in the world, leader country is China which confidence index scale is 1.93. United States and India are second and third countries respectively. Turkey is third of twenty (Figure 1) (Kearney,A., T., 2010).

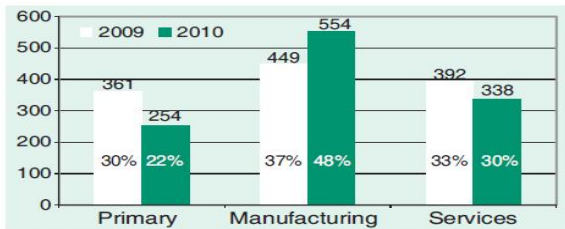
2010 FDI Confidence Index®



Source: Kearney, A.,T.,2010.

Figure 1: 2010 FDI Confidence Index (Top 25)

In addition to examined sectoral distribution of FDI projects, the best sector is manufacturing with 48 percent in 2010. However; services and primary are 33 percent and 22 percent respectively, according to Figure 2 (UNCTAD,2011b).



Source: UNCTAD.
 * Comprises cross-border M&As and greenfield investments. The latter refers to the estimated amounts of capital investment.

Figure 2: Sectoral Distribution of FDI Projects, ^a 2009-2010 (billions of dollars)

3. FOREIGN INVESTMENTS IN TURKEY

The starting point of history of FDI in Turkey is the bitter experience of the Ottoman Empire with Capitulations. The capitulations permitted foreign governments since 16th century (Erdilek, A., 2005). Foreign companies

established enterprises operating in railways, electricity, service sector and maritime lines and harbors (Dumludag,D., 2002). Then the treaty of Lausanne ended the capitulations in 1924 (Erdilek, A., 2005) . But we have only examined foreign investment after establishing Republic of Turkey in this paper.

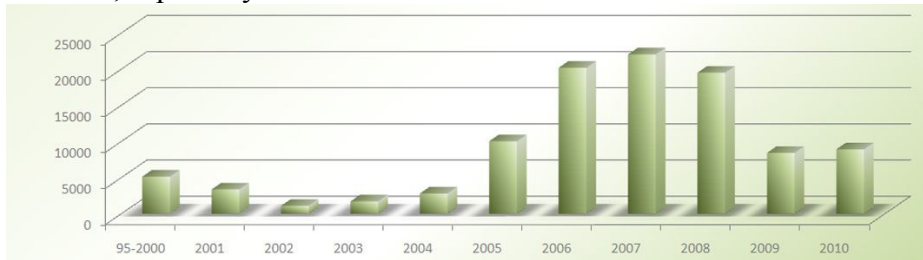
There is a commonly shared belief in Turkey regarding the government's anti-FDI stance in the first years of the Republic. However, in the 1920s the governments' attitude toward FDI was positive and the local firms were encouraged to collaborate with foreign firms (Boratav, K., 1997 ; Dumludag, D., 2002). In the 1920s several firms containing foreign capital obtained special statute from the government to invest in the manufacturing, mining sectors. But, In 1929 Great Depression affected the activities of MNCs directly. In Turkey, with the Depression of 1929, the Turkish government enacted new rules about the flow of foreign exchange. There was no FDI inflow to Turkey between 1928 and 1944 (Dumludağ, D., 2002).

But, it is generally accepted that after 1950 the flow of foreign capital into Turkey began to increase substantially (Dumludağ, D., 2002). But ,it is generally accepted that after 1950 the flow of foreign capital into Turkey began to increase substantially (Dumludağ,2002). In 1954 the government passed the “Foreign Capital Investment Law,” a law giving foreign investors the same rights as those held by Turkish investors. Economic instability during that period, however, acted as a barrier to investments and only 30 million dollars entered Turkey as foreign investments during the 1951 – 1960 period (Berköz, L., 1999).

Before 1980, Turkey had essentially a closed economy based on import substituting industrialization behind tariff and non-tariff barriers.(Erdilek,A., 2003). The stock of FDI in Turkey was only \$300 million in 1971, and up until 1980 the average annual inflow of FDI was only \$90 million. Then, it was only with a shift in Turkey from a protectionist trade regime to export-oriented economic liberalisation in the mid-1980s that FDI increased significantly. Annual FDI flows in Turkey grew rapidly from the mid-1980s, reaching \$1 billion in 1990 (Ögütçü, M., 2002).

During 1980-2002, less than half of the total authorized FDI of about \$ 35 billion was realized, pointing to problems in either the choice of authorized FDI projects

or the difficulties faced by foreign investors in implementing their project (Erdilek,2005). Therefore, in 2003, Turkey introduced significant legislative reforms to improve the investment climate in Turkey in order to facilitate the flow of foreign direct investment and as an integral part of a broader national reform (Paksoy&Co., 2005) In this context the new foreign direct investment law came into force in 2003 so that foreign capital inflow accelerate (Ekonomi Bakanlığı, 2012a). Figure 3 has shown to increase annual FDI inflows in Turkey after the new law, especially between 2005 to 2008.



Source: YOİKK,2012.

Figure 3: Annual FDI Inflows in Turkey (USD Million)

In Turkey, the net international direct investments inflow has been \$15732 million in 2011. However, equity investment inflow component of the international direct investment inflows reached up to \$ 13712 in 2011 (Ekonomi Bakanlığı,2012b).

Table 2. Breakdown of Companies with International Capital by Sector according to the Investment Location (1954-2011/April)

Sectors	Istanbul	Antalya	Ankara	İzmir	Muğla
Aggriculture, hunting, fishing, forestry	117	82	27	58	17
Mining and quarrying	226	29	112	55	10
Manufacturing	2646	207	252	389	51
Electricity, gas, water supply	343	32	128	40	1
Construction	970	616	211	120	202
Wholesale and retail trade	5446	491	481	496	111
Hotels and restaurants	606	569	74	72	284
Transport, sotorage, communications	1458	354	82	100	181
Financial intermediation	263	8	8	7	6
Real estate, renting, business activities	2294	784	284	173	485

Other community, social and personal service activities	867	162	123	70	41
TOTAL	15236	3334	1782	1580	1389

Source: Undersecretariat of Treasury, 2011

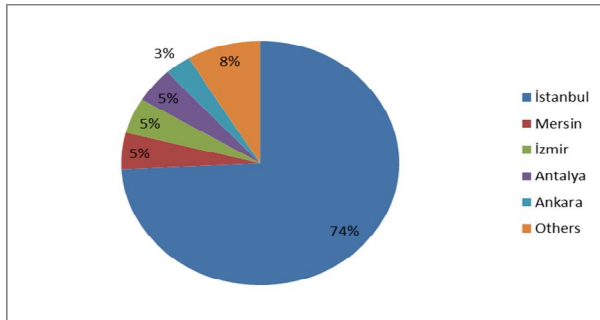
However; In Istanbul, the majority of the 15236 companies with international capital is in the wholesale and retail trade sectors (5446 firms) while they also operate in manufacturing (2646 firms), real estate renting and other business activities (2294 firms), as shown Table 2. (T.C. Undersecretariat of Treasury, 2011). Table 2 contains data for first five of investment location which are better than others.

When the distribution of companies with international capital in Turkey according to their country of origin is concerned, it is seen that 14113 of the total 27344 companies with foreign capital are of EU origin, in which Germany leads with 4520 firms followed by United Kingdom (2297 firms) and the Netherlands (1929 firms) (T.C. Undersecretariat of Treasury, 2011).

4. FOREIGN INVESTMENTS IN TURKISH TRANSPORTATION SECTOR

According to Republic of Turkey Economy Ministry, there are 29144 foreign capital companies in Turkey as of 31.12.2011 and 826 of them operate in transportation sector. 55 % the total 826 companies have operated road and pipeline transportation which is followed maritime transportation (29%) and airline transportation (%16) (T.C. Ekonomi Bakanlığı,2012c).

When investment location distribution of 826 international capital transportation companies are considered, it is seen that 74% of the total 826 are in Istanbul, which is followed by Mersin (5 %), İzmir (5%), Antalya (5%) and Ankara (3%) (Figure 4). (T.C. Ekonomi Bakanlığı, 2012c). However; when investment by country of 826 international capital transportation companies are considered, it is seen that 84 firms of the total 826 has Germany capital which is followed by Iran (65 firms), Russia Federation (60 firms), Azerbaijan (53 firms), Holland (46 firms) (T.C. Ekonomi Bakanlığı,2012c).



Source: T.C. Ekonomi Bakanlığı, 2012c.

Figure 4: Breakdown of Turkish Transportation Companies with International Capital by Investment Location as of 31.12.2011

In addition to Table 3 has shown some major mergers and acquisitions (M&A) transaction by foreign investors in the Turkish transportation industry between 2004 and 2010 (Deloitte, 2010).

Table 3: Some Mergers and Acquisitions in Turkish Transportation Sector (2004-2010)

Acquirer	Origin	Target Company	Stake	Deal Value USD(m)
Maersk Line	Denmark	Maersk Denizcilik	40%	N/D
Manara Investments	Saudi Arabia	ACT Airlines Inc	21%	N/D
Trieste Bidco by Kohlberg Kravis Roberts	USA	UN Ro Ro	97,6%	1.283,7
Camper and Nicholsonson, İctaş	USA/Turkey	Çeşme Port	7%	N/D
DP World	Dubai	Yarımca	N/D	105,0

*N/D: Not Disclosed.

Source: Merger Market and Deloitte, 2010.

5. CONCLUSION

Because of strategic geography Turkey's market has a good potential for foreign investors not only manufacturing or other sectors but also transportation industry. In this context, foreign investment policies have been concentrated by Turkish Government. The transportation sector also has its share of these investments such as other sectors. In this paper we have mentioned about FDI in the world, Turkey and in Turkish transportation sector.

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