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Turkey’s Outward Foreign Direct Investment: Trends and Patterns of Mergers and Acquisitions

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ABSTRACT
The aim of this study is to examine the recent evolution of Turkish outward foreign direct investment together with Turkish firms’ cross-border acquisitions across time, countries and industries. The article suggests that macro-economic restructuring and institutional reforms, together with strengthened competition at home and globally, not only allowed but also forced Turkish firms to expand internationally. It shows that Turkish acquisitions are mostly directed towards European countries and are concentrated more in manufacturing than in the services industry. In addition, most of the acquisitions involve firms operating in low-technology manufacturing and less knowledge-intensive services. These findings imply that Turkish firms might be motivated mainly towards accessing new markets and that the acquisitions do not seem to be utilized for technological upgrading and productivity improvements.

Introduction
Turkey’s structural and institutional transformation in the aftermath of its devastating economic crisis in 2000–2001 improved the business climate and, combined with increased global capital flows, which enhanced access to finance, brought economic growth. The country’s integration into global markets gained momentum and the share of international trade and investment in the economy expanded. However, in more recent years, economic growth has slowed down and become increasingly volatile, revealing the fragility of the country’s growth, stemming from its overdependence on foreign investment flows. Slowing and volatile economic growth and political uncertainties have depressed foreign direct investment (FDI) inflows whereas FDI outflows have displayed a continuous upward trend.

Despite the fact that the Turkish outward FDI (OFDI) stock is small compared to those from bigger players such as China and India, its accelerated growth in recent years is noteworthy. Deals such as acquisitions by Yıldız Holding of the luxury chocolate brand Godiva from the Campbell Soup Company for US$850 million in 2008 and British United Biscuits for £2 billion in 2014, and the acquisition by Arçelik AS, Europe’s third-largest home appliances maker, of the South African appliance maker Defy Appliances for US$327 million in
2011, have brought Turkish firms to the attention of economists, policy makers and industry observers. However, recent Turkish outward investment is yet to be analysed systematically.

While it is recognized that the domestic institutional context is important for understanding emerging country multinational enterprises (EMNEs) and expanding existing theoretical research, the present research on EMNEs focuses on only a few leading source countries. Hence, Turkey’s idiosyncrasies due to its geographical location as a bridge between East and West, its long-standing relations with the European Union, and its recent institutional and economic transformation render it a valuable research case. Accordingly, the objective of this paper is to contribute to this literature by analysing Turkish firms’ cross-border acquisitions (CBAs) across time, countries and industries. The technological and knowledge intensity of the acquisitions in manufacturing and services is examined by also taking into account the developmental level of the target countries.

It is commonly maintained that increased factor productivity is both a consequence and a cause of increased OFDI from developing countries and that there is a co-evolutionary relationship between firm competitiveness and internationalization. Emerging country firms use outward investments as a way to acquire strategic resources or assets to compete more effectively at home and globally as well as to overcome institutional and market constraints in their home countries. After a strong post-crisis recovery, Turkey now faces the challenge of generating high rates of economic growth on a sustainable basis. This, in turn, requires productivity improvements through technological upgrading and innovation on the part of Turkish firms and transformation of Turkey’s economic and political institutions into ‘inclusive’ institutions that provide for the rule of law, effective and accountable government, and encourage economic growth. Hence, the analysis of Turkish firms’ outward investments is central in this context and has potential policy implications especially in view of the country’s current efforts to develop a proactive industrial strategy.

The remainder of the paper is organized as follows. The next section reviews the literature on the OFDI from emerging countries. In the following section a historical overview of the Turkish macro-economic environment and Turkish OFDI is presented. Subsequently, the results of the analysis of the Turkish CBAs from 2002 to 2014 and across target markets and industries are provided. The study’s main findings and conclusions are given in the last section.

**Literature review: OFDI from emerging countries**

There exists a large body of literature addressing internationalization of companies and expansion of FDI. The Hymer–Kindleberger theory suggests that imperfections in markets for products and factors of production motivate FDI since firms can only exploit fully their advantages or abilities by controlling their use. The theory of internalization synthesizes and extends market imperfections theories by demonstrating that there are externalities, especially transaction costs, resulting in imperfect markets, and the multinational enterprise (MNE) operates an internal market to internalize these externalities. For FDI to exist, competitive advantages must be firm-specific and transferable to foreign affiliates. The possession of proprietary information and human capital to generate new information constitutes the main source of firm-specific advantages. The eclectic theory of FDI developed by Dunning suggests that three sets of factors lead to FDI: ownership, internalization and location advantages. Ownership advantages refers to firms’ unique assets such as
technological, marketing or management capabilities while location advantages arise from utilizing resource endowments or assets tied to a particular location. Firms internalize the cross-border market for these advantages and undertake international production when it is in their interest to exploit these from a foreign location.

Eclectic theory expressed in a dynamic context referred to as the investment development path model proposes that changes in the net international direct investment position of a country can be explained by its level of development: changes in the ownership and internalization advantages of its firms compared to firms of other nationalities and/or changes in its location-specific endowments relative to those of other countries. Similarly, according to the stages of economic development model, developing countries at first attract foreign investment in labour-intensive manufacturing industries but as their factor endowments shift towards more human- and physical-capital abundance, they transform into active foreign investors in search of lower-wage labour in other developing countries. The Uppsala model of internationalization process, on the other hand, posits that internationalization is a function of learning and commitment as firms start with low resource commitments in culturally closer countries to reduce the liability of foreignness and then expand their commitments and geographic scope.

As various developing countries improved their market institutions as well as infrastructure and factor markets and opened up to the global economy, their firms evolved as MNEs starting in force in the early 2000s. Scholars have since sought to explain the competitive advantages of EMNEs and processes by which these firms internationalize and have questioned the relevance of the existing international business research for these countries. It is argued, for instance, that EMNEs lack knowledge-based firm-specific assets (FSAs) and the FSAs that they own are based on home country-specific assets (CSAs) such as cheap labour and ownership of natural resources. However, it is also contended that not every firm has access to these CSAs equally and that firms need certain FSAs before they can exploit them.

What is important to note is that EMNEs have internationalized in a different macro-economic context which is characterized by globalization and technological advances, which reduced the transaction costs of internationalization. As late globalizers they had to compete with advanced country MNEs in their home markets, and develop FSAs to overcome country-specific disadvantages such as institutional voids. Accordingly, it is suggested that developing FSAs through international expansion, i.e. asset augmentation, is the predominant motivation for EMNEs rather than exploitation of existing resources or FSAs as argued in traditional accounts of MNEs. The linkage, leverage and learning framework, for instance, posits that EMNEs’ internationalization does not depend on their prior possession of resources; rather these firms utilize internationalization to tap into resources that they lack. These firms follow a strategy of accelerated internationalization through linkage and leverage, i.e. by establishing links with source firms abroad so that resources can be accessed and leveraged. This, in turn, fits well with the interconnected character of the global economy, and as new opportunities are generated through globalization, their latecomer disadvantages turn into sources of advantage. Similarly, it is noted that EMNEs do not follow an incremental mode as suggested by the conventional theories but rather internationalize very rapidly and expand through acquisitions and greenfield investments which are high risk and high control entry modes. EMNEs use outward investments as a
springboard to acquire strategic resources to compete more effectively with global rivals and compensate for institutional and market constraints at home.\textsuperscript{16}

Four primary investment motivations determine location decisions of MNEs as suggested in the eclectic theory: resource seeking, market seeking, efficiency seeking and strategic asset seeking.\textsuperscript{17} While this framework holds in the case of OFDI by EMNEs, home country infrastructure and factor market development as well as institutional context condition EMNEs’ investment decisions.\textsuperscript{18} Furthermore, since EMNEs have a greater need to acquire knowledge and capabilities, they are more likely to have an explorative strategic orientation and engage in knowledge-seeking FDI.\textsuperscript{19} Developed and developing countries as host markets, on the other hand, offer different challenges and corporate learning opportunities that contribute to EMNEs’ competitiveness, and hence investment motives of EMNEs differ across each market. Developed countries allow the most powerful EMNEs to assume global industry leadership positions while developing countries provide EMNEs learning-by-doing opportunities in a less challenging environment.\textsuperscript{20} Strategic asset-seeking motives by EMNEs dominate in the developed host markets where innovation-based knowledge is more abundant compared to developing markets.\textsuperscript{21} The functional type of knowledge sought, in turn, is argued to determine both location choice and entry mode.\textsuperscript{22} When EMNEs’ primary knowledge-seeking motivation is technology, R&D or management and operational expertise, they would be more likely to enter developed countries and engage in FDI through partnerships rather than independently. On the other hand, when they seek knowledge of consumers or markets, they would be more likely to enter other developing countries and undertake FDI independently.

**Historical overview of the macro-economic environment and OFDI**

Turkey predominantly followed a planned ‘etatist’ industrialization strategy from the founding of the republic in 1923 to the 1980s, notwithstanding the brief adoption in the 1950s of an economic strategy which emphasized liberalization and integration into the world economy.\textsuperscript{23} As foreign capital and free markets were regarded with suspicion, the inward-looking industrialization strategy resulted in a protected private sector enjoying various incentives from the state and the emergence of big and diversified industrial conglomerates.\textsuperscript{24} In the same way, Turkish OFDI was very limited due to the protectionist policies and restrictive regulations such as requirements that such investments be subject to the Council of Ministers’ decisions.\textsuperscript{25} Still, the first Turkish OFDI was carried out in as early as 1932 by Türkiye İş Bankası, a privately owned bank.\textsuperscript{26} Four attributes characterized Turkish OFDI undertaken between 1932 and 1979. First, Turkish firms targeted countries which were Turkey’s important trade partners in order to facilitate international trade. Second, Western European countries such as Germany and the Netherlands were the main destinations as Turkish firms and banks entered these countries after Turkish workers began arriving in the 1960s. Third, state economic enterprises were prominent investors as they entered into partnership agreements with foreign companies. Fourth, Turkish construction firms started internationalizing at the beginning of the 1970s.\textsuperscript{27}
Trade and financial liberalization: the 1980s and the 1990s

When a balance of payments crisis erupted in 1978–1979 and the following two adjustment packages and the standby agreements with the International Monetary Fund (IMF) failed, a stabilization and structural adjustment programme was introduced on 24 January 1980. Reforms aimed at changing the economy to a market basis were introduced and in the early years both liberalization and stabilization aspects of the programme were carried out. The programme achieved considerable success in terms of lowering inflation, increasing economic growth and achieving a striking expansion of exports over a short period of time. While economic growth continued, inflation remained persistently high due to the inability of governments to achieve fiscal control. Rapid expansion in trade orientation continued and exchange rate policy, export incentives and depressed domestic demand contributed to the export boom: The share of exports in GDP increased to 18.65% in 1988 from only 3.22% in 1979, while imports also increased to 17.55% of GDP from 5.88% in 1979.28

FDI inflows also positively responded to the liberalization measures: the average FDI inflows per year were US$456.3 million between 1980 and 1990. While this represented a significant increase from an average annual inflow of only US$90 million prior to 1980, relative to countries of comparable size it was very low.29 As investing abroad was no longer considered negatively by the government and the related regulations were eased, many Turkish firms implemented their first FDIs in this period.30 The total stock of Turkish OFDI increased from US$0.86 million at the end of 1980 to US$92.81 million at the end of 1988.31

Starting in the late 1980s economic conditions worsened: with low investment in productivity improvements in manufacturing, exports stagnated and growth slowed.32 However, the trend towards financial liberalization was maintained. Capital account liberalization in 1989 was the ultimate step in the external liberalization process and this combined with fiscal instability and inadequate regulatory framework rendered the economy extremely vulnerable to external shocks in the 1990s. Increased macro-economic volatility, political uncertainties and the non-friendly FDI legislation of the country limited inward FDI (IFDI). Turkey lagged behind other developing economies in the 1990s when global FDI registered a robust growth performance.33

The overall negative business climate at the same time acted as a push factor for Turkey’s OFDI, which surged and increased at a faster rate than FDI inflows in the 1990s. Capital account liberalization together with the accompanying liberalization of OFDI policies created a turning point for OFDI which had previously remained very limited, with some investments in Western European countries. Unsustainably high real interest rates on government borrowing instruments finally led the country to a foreign exchange crisis in 1994 and the deep recession in its aftermath accelerated Turkey’s OFDI.34 An additional factor contributing to the growth trend of Turkish OFDI during this period was the dissolution of the Soviet Union into independent republics as Turkish investors turned to Eastern Europe and Central Asia in search of business opportunities. Governmental incentives were introduced after 1989 to promote investments in Central Asia, in particular in Turkic Republics.35 Moreover, historical, cultural and geographical proximity, abundant natural resources and cost advantages, and a business environment similar to that of Turkey drew Turkish investors to Central Asian Turkic Republics.36

Despite the unpromising macro-economic environment, the 1990s also saw the creation of a customs union with the European Union (EU), which came into effect in 1996.
While this failed to improve the country’s attractiveness as a host for FDI inflows, it was effective in encouraging the integration of Turkish firms into European and global markets by anchoring Turkey’s external tariffs at EU levels, and aligning technical standards and competition policies. Increased import penetration, and hence competitive pressure on the manufacturing industry, led to increased productivity while exports improved and reoriented towards medium- and medium-high-technology sectors. The total stock of Turkish OFDI increased from US$111.50 million at the end of 1989 to US$1.43 billion at the end of 1996.

Deteriorating macro-economic fundamentals and deepening fragilities in the financial system led to the introduction of a stabilization programme in December 1999. Despite some initial success, the programme failed and gave rise to a liquidity crisis in November 2000 and a massive attack on the Turkish lira in February 2001. The economy contracted by 9.4% in real terms while annual inflation jumped to 69% in 2001. Turkish OFDI stock reached US$2.64 billion at the end of 1999 while OFDI flows peaked at almost US$1.45 billion in 2001 after overtaking the US$1 billion level in 2000 for the first time.

Table 1. Turkish IFDI stock, OFDI stock and net outward investment position.

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<tbody>
<tr>
<td>Inward FDI (IFDI)</td>
<td>8,801</td>
<td>11,150</td>
<td>18,812</td>
<td>187,016</td>
<td>136,498</td>
<td>190,016</td>
<td>149,168</td>
<td>168,645</td>
</tr>
<tr>
<td>Outward FDI (OFDI)</td>
<td>0</td>
<td>1,150</td>
<td>3,668</td>
<td>22,509</td>
<td>27,681</td>
<td>30,968</td>
<td>33,373</td>
<td>40,068</td>
</tr>
<tr>
<td>OFDI as a % of IFDI</td>
<td>0.00</td>
<td>10.32</td>
<td>19.50</td>
<td>12.04</td>
<td>20.28</td>
<td>16.30</td>
<td>22.37</td>
<td>23.77</td>
</tr>
</tbody>
</table>


Table 2. OFDI stocks: Turkey and selected emerging countries.

<table>
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<tr>
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<tbody>
<tr>
<td>Millions of dollars</td>
<td></td>
<td></td>
<td></td>
<td>% of developing country total</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Turkey</td>
<td>1,150</td>
<td>3,668</td>
<td>40,088</td>
<td>0.82</td>
<td>0.49</td>
<td>0.83</td>
<td></td>
</tr>
<tr>
<td>Brazil</td>
<td>41,044</td>
<td>51,946</td>
<td>316,339</td>
<td>29.44</td>
<td>7.00</td>
<td>6.55</td>
<td></td>
</tr>
<tr>
<td>China</td>
<td>4,455</td>
<td>27,768</td>
<td>729,585</td>
<td>3.20</td>
<td>3.74</td>
<td>15.10</td>
<td></td>
</tr>
<tr>
<td>India</td>
<td>124</td>
<td>1,733</td>
<td>129,578</td>
<td>0.09</td>
<td>0.23</td>
<td>2.68</td>
<td></td>
</tr>
<tr>
<td>Indonesia</td>
<td>86</td>
<td>6,940</td>
<td>24,057</td>
<td>0.06</td>
<td>0.94</td>
<td>0.50</td>
<td></td>
</tr>
<tr>
<td>Korea</td>
<td>2,301</td>
<td>21,497</td>
<td>258,553</td>
<td>1.65</td>
<td>2.90</td>
<td>5.35</td>
<td></td>
</tr>
<tr>
<td>Malaysia</td>
<td>753</td>
<td>15,878</td>
<td>135,685</td>
<td>0.54</td>
<td>2.14</td>
<td>2.81</td>
<td></td>
</tr>
<tr>
<td>Mexico</td>
<td>2,672</td>
<td>8,273</td>
<td>131,246</td>
<td>1.92</td>
<td>1.12</td>
<td>2.72</td>
<td></td>
</tr>
<tr>
<td>Philippines</td>
<td>405</td>
<td>1,032</td>
<td>35,603</td>
<td>0.29</td>
<td>0.14</td>
<td>0.74</td>
<td></td>
</tr>
<tr>
<td>Russian Federation</td>
<td>20,141</td>
<td>431,865</td>
<td>2.71</td>
<td>8.94</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>South Africa</td>
<td>15,010</td>
<td>27,328</td>
<td>133,936</td>
<td>10.76</td>
<td>3.68</td>
<td>2.77</td>
<td></td>
</tr>
<tr>
<td>World</td>
<td>2,253,944</td>
<td>7,298,188</td>
<td>25,874,757</td>
<td>6.19a</td>
<td>10.17a</td>
<td>18.68a</td>
<td></td>
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Economic restructuring and deepening global integration: the post-2001 era

A new economic programme was initiated in May 2001 which provided a framework for improving public finances and economic restructuring. The banking sector was restructured and fiscal policy was tightened while the Central Bank Law was amended to prohibit the financing of the budget. Structural reforms to improve public sector governance and the establishment and strengthening of independent regulatory agencies were undertaken largely in the first half of the 2000s. Both the EU accession process and programmes supported by the IMF and World Bank provided an important anchor for the reforms. In order to secure continued IMF and World Bank support, Turkey had to commit explicitly to opening up to FDI. Enactment of the new FDI law in June 2003 to replace the old FDI law, which dated back to 1954, was of particular importance. The new law and the revised commercial code eliminated legal restrictions on FDI and granted national treatment to foreign investors. In addition to external actors, big businesses as well as small and medium-sized interests provided significant backing to the policy shift towards strengthening institutions and the regulatory arm of the state since they considered a properly regulated and predictable macro-economic environment a necessary condition for improving productivity and transitioning upward in the global value chains, and hence competing globally.

The economy pulled through the crisis rapidly thanks to the structural reforms together with ample liquidity in global markets: the average annual growth rate of real GDP was 6.8% between 2002 and 2007. The country’s integration into global markets, which had already accelerated with the Customs Union agreement, gained further momentum due to the start of the accession negotiations in 2005 following the official recognition of Turkey as a candidate country by the EU in 1999. In accordance with the EU accession process, the authorization requirement on FDIs by Turkish citizens exceeding US$5 million was abolished in 2006. The ratio of imports and exports to GDP was on average 48.3% between 2002 and 2007, up from an average of 39.7% in the 1990s. Net FDI inflows as a percentage of GDP peaked at 3.8 at the end of 2006, while it had only been 0.4 on average in the 1990s. The EU, led by the Netherlands, Austria and the United Kingdom, has been traditionally the largest investor, accounting for about 75% of the total inflows. Increased trade openness and FDI inflows, in turn, strengthened competition faced by Turkish firms in the domestic market. Benefiting from access to cheap financing thanks to macro-economic stability at home and ample global liquidity, Turkish firms responded by becoming increasingly international in their operations in alliance with international investors and in search of new market opportunities and competitive capabilities. Major Turkish conglomerates, in particular, made a strategic shift and actively encouraged cohabitation with global capital either in partnership or in competition with it.

The country’s growing economic links with the neighbouring countries, especially the Balkans and the Middle East and North Africa region, accompanied the expanding share of international trade and investment in the economy. The Turkish state has promoted trade and investment in these regions and made considerable efforts to open up new markets for Turkish exporters with several regional trade and visa agreements. As noted by many, the share of Turkey’s neighbouring countries in its overall trade increased significantly while that of Europe, the country’s largest trade partner, has declined in recent years, especially in the aftermath of the global crisis. Repeated surveys reported that although top Turkish MNEs’ foreign affiliates were concentrated in Europe, the MNEs turned their attention to...
new markets, particularly in Africa, the Middle East and the Balkans, and began investing more in the neighbouring countries.

Both the structure of production and the import and export patterns were transformed in the process of integrating into the world economy. Large volumes of imported intermediate and investment goods accompanied the high performance of export sectors, signalling Turkey’s increasing involvement in cross-border production and trade chains. The increasing competitive power of Asian countries and the overvaluation of the Turkish lira, allowing Turkey to import cheaply, were effective in this process. In addition, low technological capacity characterized the foreign trade composition of the country in this period: high-technology exports as a percentage of manufactured exports declined from 4.83 in 2000 to 1.93 in 2010, which is noted as being considerably lower than that of Organisation for Economic Co-operation and Development (OECD) members and the BRICs (Brazil, Russian Federation, India, China and South Africa). As the country found easier access to international capital markets, robust domestic demand combined with low domestic savings, which followed a downward trend after the opening of the capital account, led to the current account deficit reaching ever higher levels. External resources, however, financed consumption rather than investments which stagnated. Indeed, the country’s investment to GDP ratio is found to be less than that of many emerging countries over the 2002–2012 period.

Increasing growth volatility and slowing growth during the global financial crisis and its aftermath revealed the fragility of the country’s growth stemming from its overdependence on foreign investment flows, especially on short-term inflows. The country suffered the negative impact of the global financial crisis from late 2008 onwards and GDP dropped dramatically by 4.8% in 2009. While growth resumed in 2010 and 2011, the average growth rate of real GDP was only 3.3% between 2008 and 2014. Moreover, growth volatility increased dramatically over this period as heavy dependence on foreign financing rendered the economy vulnerable to exchange rate movements through significant liability dollarization. Slowing and volatile economic growth, a deteriorating institutional environment and political uncertainties depressed FDI inflows: while the annual average FDI inflow was US$17,421 million between 2005 and 2007, annual flows dropped to US$12,352 million in 2013 and US$12,146 million in 2014. OFDI flows, on the other hand, after averaging US$1365 million between 2005 and 2007, reached US$3527 million in 2013 and US$6658 million in 2014.

Table 1 presents statistics on the IFDI and OFDI stock together with the net outward investment position (NOIP) of Turkey over time. From 1990 to 2000, the value of the IFDI stock of Turkey increased by only about 1.7 times from US$11,150 million to US$18,812 million while that of the OFDI stock increased by about 3.2 times from US$1150 million to US$3668 million, reflecting the unpromising macro-economic and institutional environment of the country, as discussed above. The following decade, on the other hand, witnessed an impressive performance by the country in attracting FDI: from 2000 to 2010 the value of IFDI stock increased by almost 10 times to reach US$186,987 million despite some deterioration in the inward flows due to the global financial crisis.

During the same period, the country’s outward investment also registered a robust growth of about 6.1 times and the value of OFDI stock reached US$22,509 million. Since 2010, however, the growth rate of IFDI has slowed down and its volatility has increased whereas OFDI has displayed a steady increase: the average yearly growth rate of IFDI stock between
2010 and 2014 is only 1% while that of OFDI stock is 16%. As a result, OFDI stock as a percentage of IFDI stock increased from 12.04 in 2010 to 23.77 in 2014. If the current trends continue, we can say that Turkey would be moving from stage two to stage three of Dunning’s investment development path model during which the NOIP is still negative but getting smaller because either outward investment is rising faster than inward investment or inward investment is falling with outward investment remaining constant.63

It was stated that strong domestic demand, a strong currency and cheaper funding underpinned Turkish MNEs’ outward orientation in this period. In more recent periods, taking advantage of the European debt crisis, Turkish firms acquired struggling businesses in Europe, in particular in the Balkans, and other neighbouring countries.64 According to a recent survey, at the end of 2012, 29 Turkish MNEs had a total of 426 international subsidiaries, 326 of which were located mainly in Europe and Central Asia, 53 in the Middle East and Africa, 31 in East Asia, South Asia and the developed Asia-Pacific and 16 in the Americas. Concerning the motivations of the Turkish MNEs, on the other hand, the same survey found that accessing new markets and market diversification was their main drive. Achieving sustainable growth, management of risk, accessing natural resources and reducing costs were noted to be other important factors affecting their outward investment decisions.65 Regarding the recent surge in Turkish direct investment in the Balkans, it was suggested that cultural and historical factors were at play, in addition to the economic factors, as revealed by the geographical focus of the investments in the areas which have a considerable Turkish-speaking and/or Muslim population.66

Next, the OFDI stock of Turkey is compared with that of a select group of emerging countries including the BRICS and some of the growth markets (Indonesia, Malaysia, Mexico, Philippines, Republic of Korea). Table 2 presents the OFDI stocks in 1990, 2000 and 2014 for these countries both in millions of dollars and as a percentage of the total stock of developing countries together with world and total developing country stocks. We first note the emergence of developing countries as important players on the FDI stage as their weight in the global economy increases. While the total OFDI stock of developing countries accounted for 6.19% of the world’s total OFDI stock in 1990, it increased about three-fold between then and 2014 and reached 18.68%. Second, we observe that Turkey’s OFDI stock remained about the same as a percentage of the total OFDI stock of developing countries despite registering a strong absolute increase over the same period. Accounting for only 0.83% of the total OFDI stock of developing countries in 2014, Turkey’s OFDI stock is larger than that of only Indonesia and the Philippines. The top three emerging country foreign direct investors, in contrast, are China, the Russian Federation and Brazil.

**Cross-border acquisitions by Turkish firms**

We describe the acquisition behaviour of Turkish firms along three dimensions: time, geographical orientation and industry. We analyse geographical orientations based on (i) a broad regional classification of target countries and (ii) whether the target country is an advanced or a developing country. We classify Turkish firms’ acquisitions in the manufacturing and service industries according to technological and knowledge intensity of the sectors.
Data sources and sampling strategy

Our main data source is Zephyr, which is a comprehensive database of merger and acquisition (M&A) information compiled by Bureau Van Dijk and commonly used in the related empirical literature. We choose to employ firm-level M&A data rather than macro-level data such as FDI flows and stocks to analyse the geographical and industry distribution of emerging Turkish OFDI due to a number of reasons. First, acquisitions seem to be a primary entry mode for EMNEs. It is also noted for Turkey that large enterprises and small and medium-sized enterprises have relied on M&As in their internationalization activities. Second, firm-level data can better explain strategic motivations and destinations of firms as it allows for a finer grained analysis by taking into account industry-specific and firm-specific heterogeneity, which is not possible with capital flows. Third, country-level official OFDI data can be under-reported or over-estimated as it may not distinguish FDI from round-tripping, which is common in the case of developing country MNEs. Similarly the Turkish official OFDI data are thought likely to be under-reported.

We identified cross-border M&As (CBMAs) completed by Turkish firms in the 13-year period from 2002 to 2014. Given the study’s objectives, we broadly defined CBMAs to include acquisitions and mergers as well as minority stake investments with at least 10% of stakes changing hands as a result of the deals. The initial list of CBMAs identified in the database has been checked and cleaned up to ensure that the deals include correctly defined cases. Specifically, we deleted acquisitions of Turkish subsidiaries of foreign MNEs, restructuring cases—i.e. transfer of ownership within the same group—greenfield investments made by Turkish firms and erroneous double entries. Ownership information of the acquirers is checked using the ORBIS database, also provided by Bureau Van Dijk, as well as through company websites. Unclear cases are also checked against news stories as well as company websites and company reports such as annual statements. The final sample is made up of 115 cross-border acquisitions.

Acquisitions across time and target regions

We classify target countries into six geographical regions: Western Europe, Eastern Europe, North America, Middle East, Far East and Central Asia, and Africa. There were no acquisitions in the remaining South and Central America and Oceania regions. We also examine the Balkans separately as a sub-category of the European regions.

Table 3 shows that Turkish acquisitions are mostly directed towards European countries: 88 out of 115 target firms (76.52%) are based in Europe. Within Europe, the top three target countries are Germany with 14 acquisitions, Italy with 11 acquisitions, and the Russian Federation with eight acquisitions. While accounting for only 13.91% of the acquisitions, the Far East and Central Asia region is relatively more prominent in the more recent years of the analysis. If we consider Europe and Central Asia as Turkey’s home-region, it can be said that Turkish firms are following a regional orientation, with a heavy concentration in the home region, rather than a global orientation. This evidence confirms the regionalization hypothesis, according to which the advantages due to home region similarities in terms of geography, economics, institutions and politics and spatial proximities lead multinationals to conduct much of their international activities in their home regions.
bound internationalization is a commonly observed strategy in other emerging country multinationals’ geographic orientations.74

Table 4 lists our sample firms’ acquisitions by target countries. In the Far East and Central Asia region, Turkic Republics seem to be noteworthy destinations, with four acquisitions in Kazakhstan, three acquisitions in Uzbekistan and two acquisitions in Turkmenistan. The geographical distribution of Turkish M&As as shown here is broadly in agreement with the recent survey findings on Turkish MNEs’ international subsidiaries, as discussed previously.

**Industry distribution of Turkish firms’ acquisitions**

In examining the industry distribution of Turkish firm’s acquisitions we take into account the target country’s development level to see whether the sectoral distribution of the acquisitions differs across advanced and developing host countries.75 Acquisitions in the manufacturing and service industries are further classified according to the technological and knowledge intensity of the industries. Manufacturing industries are grouped into four categories: high-technology, medium-high-technology, medium-low-technology and low-technology. Service industries, on the other hand, are classified into two categories: knowledge-intensive services and less knowledge-intensive services. Both classifications follow Eurostat definitions and are based on NACE two-digit levels. Agriculture, forestry, fishing and mining are classified as primary sectors.76

Table 5 shows that Turkish OFDI’s are largely located in developed countries and that acquisitions occur more often in the manufacturing industry (55.65%) than in the services industry (37.39%). Acquisitions in the primary sector account for only 4.35% of the total acquisitions. Most of the acquisitions involve firms operating in low-technology manufacturing (19.13%) and less knowledge-intensive services (23.48%). The prominence of low-technology manufacturing firms as targets is similar across developing and advanced countries. However, it is worth noting that target firms operating in low-technology manufacturing are more numerous in developing countries than in advanced countries. Considering services, in the case of advanced countries the target firm is about twice as likely

### Table 3. Acquisitions by target firm’s region from 2002 to 2014.

<table>
<thead>
<tr>
<th>Year</th>
<th>Europe</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Western Europe</td>
<td>Eastern Europe</td>
<td>Balkans</td>
<td>North America</td>
<td>Middle East</td>
<td>Far East and Central Asia</td>
<td>Africa</td>
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<td>0</td>
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<td>0</td>
<td>8</td>
</tr>
<tr>
<td>2005</td>
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<td>0</td>
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<td>2006</td>
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<td>2</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>0</td>
<td>6</td>
</tr>
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<td>2007</td>
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<td>0</td>
<td>2</td>
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<tr>
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<td>10</td>
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<td>2009</td>
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<td>0</td>
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<td>4</td>
<td>0</td>
<td>8</td>
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<tr>
<td>2010</td>
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<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>4</td>
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<tr>
<td>2011</td>
<td>6</td>
<td>6</td>
<td>4</td>
<td>0</td>
<td>1</td>
<td>5</td>
<td>1</td>
<td>19</td>
</tr>
<tr>
<td>2012</td>
<td>2</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>0</td>
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<td>0</td>
<td>8</td>
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<tr>
<td>2013</td>
<td>13</td>
<td>4</td>
<td>4</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>19</td>
</tr>
<tr>
<td>2014</td>
<td>8</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>0</td>
<td>1</td>
<td>13</td>
</tr>
<tr>
<td>Total</td>
<td>56</td>
<td>32</td>
<td>20</td>
<td>5</td>
<td>4</td>
<td>16</td>
<td>2</td>
<td>115</td>
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</table>

Source: Author’s compilation.
### Table 4. Acquisitions by target firm’s country, 2002–2014.

<table>
<thead>
<tr>
<th>Western Europe</th>
<th>Eastern Europe</th>
<th>North America</th>
<th>Far East and Central Asia</th>
<th>Middle East</th>
<th>Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>14</td>
<td>8</td>
<td>4</td>
<td>4</td>
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<tr>
<td>Italy</td>
<td>11</td>
<td>Romania 6</td>
<td>Canada 1</td>
<td>Uzbekistan 3</td>
<td>Iran 1</td>
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<tr>
<td>The Netherlands</td>
<td>7</td>
<td>Bulgaria 3</td>
<td></td>
<td>Indonesia 2</td>
<td>Iraq 1</td>
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<tr>
<td>France</td>
<td>5</td>
<td>Hungary 3</td>
<td></td>
<td>Turkmenistan 2</td>
<td>Jordan 1</td>
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<tr>
<td>Austria</td>
<td>3</td>
<td>Macedonia 3</td>
<td></td>
<td>Azerbaijan 1</td>
<td></td>
</tr>
<tr>
<td>United Kingdom</td>
<td>3</td>
<td>Albania 2</td>
<td></td>
<td>China 1</td>
<td></td>
</tr>
<tr>
<td>Spain</td>
<td>3</td>
<td>Belarus 1</td>
<td></td>
<td>Georgia 1</td>
<td></td>
</tr>
<tr>
<td>Greece</td>
<td>2</td>
<td>Bosnia and Herzegovina 1</td>
<td></td>
<td>Kyrgyzstan 1</td>
<td></td>
</tr>
<tr>
<td>Sweden</td>
<td>2</td>
<td>Croatia 1</td>
<td></td>
<td>Pakistan 1</td>
<td></td>
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<tr>
<td>Belgium</td>
<td>1</td>
<td>Kosovo 1</td>
<td></td>
<td></td>
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<tr>
<td>Cyprus</td>
<td>1</td>
<td>Latvia 1</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Denmark</td>
<td>1</td>
<td>Serbia 1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finland</td>
<td>1</td>
<td>Ukraine 1</td>
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<td></td>
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</tr>
<tr>
<td>Luxembourg</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Malta</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Author’s compilation.
to be in less knowledge-intensive services than in knowledge-intensive services. However, in the case of developing countries, the relative frequency of acquisitions in the two service industries are relatively closer to each other. These observations imply that Turkish firms might not have the capabilities to compete in knowledge-intensive services in advanced countries and are hence drawn towards developing countries. Acquisitions in electricity, gas and water industries account for only 2.61% of the total while there are no acquisitions in the remaining category, the construction industry.

**Conclusions**

Improvements in macro-economic stability and economic institutions and policies conducive to enterprise growth combined with increased global capital flows enhancing access to finance brought economic growth to Turkey in the aftermath of its 2000–2001 crisis. The country’s integration into global markets gained momentum and an expansion in the share of international trade and investment in the economy accompanied the strong growth performance. Exports reoriented towards medium- and medium-high-technology sectors, whereas intermediate and investment goods dominated imports, signalling Turkey’s increasing involvement in international production networks.

However, in the years following the global financial crisis, Turkey’s economic model, largely built on domestic consumption and dependent on short-term capital flows, has come under increasing strain. Not only did growth slow down, but also its volatility increased dramatically over this period as heavy dependence on foreign financing rendered the economy vulnerable to exchange rate movements. The country currently faces the challenge of generating high rates of economic growth on a sustainable basis, which requires productivity improvements through technological upgrading and innovation on the part of Turkish firms.

In the context of Turkey’s recent structural and institutional transformation, which allowed for the country’s deeper integration into global markets, and its present challenges of carrying out further reforms to increase competitiveness and improve the business environment, this study discussed the recent evolution of Turkish OFDI. We suggested that macro-economic restructuring and institutional reforms, along with strengthened competition

<table>
<thead>
<tr>
<th>Industry</th>
<th>Developing countries</th>
<th>Advanced countries</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Count</td>
<td>%</td>
<td>Count</td>
</tr>
<tr>
<td>Primary sector</td>
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<tr>
<td>Manufacturing</td>
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<td>59.62</td>
<td>33</td>
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<tr>
<td>High-technology</td>
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<td>3.85</td>
<td>3</td>
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<tr>
<td>Medium-high-technology</td>
<td>8</td>
<td>15.38</td>
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</tr>
<tr>
<td>Medium-low-technology</td>
<td>8</td>
<td>15.38</td>
<td>11</td>
</tr>
<tr>
<td>Low-technology</td>
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<td>25.00</td>
<td>9</td>
</tr>
<tr>
<td>Electricity, gas and water</td>
<td>2</td>
<td>3.85</td>
<td>1</td>
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<tr>
<td>Services</td>
<td>16</td>
<td>30.80</td>
<td>27</td>
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<tr>
<td>Knowledge-intensive</td>
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<td>13.46</td>
<td>9</td>
</tr>
<tr>
<td>Less knowledge-intensive</td>
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<td>17.31</td>
<td>18</td>
</tr>
<tr>
<td>Total</td>
<td>52</td>
<td>100.00</td>
<td>63</td>
</tr>
</tbody>
</table>

Source: Author’s compilation.
at home due to increased import penetration and FDI inflows, not only allowed, but also forced, larger and more successful Turkish firms to expand internationally in search of new market opportunities and capabilities to survive in an increasingly globalized world. The recent cross-border acquisitions are manifestations of these transformations in Turkey’s institutional and competitive environment and their impacts on Turkish firms’ business models.

We showed that the acquisitions of Turkish firms are largely located in developed countries, in particular in European countries. Considering the industry distribution of the acquisitions, we found that Turkish firms made acquisitions especially in low-technology manufacturing and less knowledge-intensive services. These findings suggest that Turkish firms might be motivated mainly towards accessing new markets and that they do not have the capabilities to compete in high-technology manufacturing and knowledge-intensive services in advanced countries. Accordingly, the acquisitions do not seem to be utilized by Turkish firms to tap into resources that they need for technological upgrading and productivity improvements.

The study also highlighted that while the Turkish OFDI stock is still small among developing countries, it has registered a strong growth performance in more recent years, unlike the Turkish IFDI stock. Given that slowing economic growth has been accompanied by significant deterioration in the institutional foundations of the country, in particular by a lack of respect for the rule of law, the strong increase in Turkish OFDI flows could be signalling that a desire to avoid a poor institutional environment, i.e. institutional escapism, might be emerging as an additional motive for Turkish MNEs, which could be an important topic for future research.

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Disclosure statement

No potential conflict of interest is reported by the author.

Notes on contributor

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Notes


14. Ibid.


20. Cantwell and Barnard, op. cit.


22. Kedia et al., op. cit.


26. Ibid.

27. The aggregate OFDI series is available as part of the Balance of Payments statistics through the Central Bank of the Republic of Turkey from 1975 onwards. Prior to the 1990s, Turkish OFDI flows are negligible. Yavan (op. cit.) also notes that there is no statistical data or research on Turkish firms’ outward investments in the pre-1979 period and states that this confirms that such investments were very limited in this period.


30. Yavan, op. cit.

31. Ibid.


35. Yavan, op. cit.

36. Ibid.


38. Yılmaz, op. cit.; Taymaz and Voyvoda, op. cit.


41. Yavan, op. cit.
42. World Bank, *Turkey’s Transitions*, op. cit.; Öniş and Şenses, op. cit.
44. Ibid.; Hadjit and Moxon-Browne, op. cit.
46. World Bank, *World Development Indicators*, op. cit.
47. Ibid.
48. Ibid.
49. Yavan, op. cit.; Öniş and Şenses, op. cit.
50. Grigoriadis and Kamaras, op. cit.
52. See, for instance, Kirisci and Kaptanoğlu, op. cit.
55. Öniş and Kutlay, op. cit.
60. World Bank, *World Development Indicators*, op. cit.
61. Özatay, op. cit.
67. Hoskisson et al., op. cit.
68. Erdilek, ‘Outward foreign direct investment’, op. cit.
70. Sethi, op. cit.
72. The term ‘acquisition’ is commonly defined in the literature as a deal or transaction following which the acquiring firm attains a majority stake—i.e. more than 50% in the target firm—if the pre-transaction fraction of the acquiring firm’s stake in the target firm is less than 50%. Similarly, a minimum 10% stake is commonly considered to represent a significant control change in the firm.
75. Cantwell and Barnard, op. cit.