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Eastern Europe as investment location for Turkish OFDI[1]

Tamás Szigetvári[2]

Abstract

After the end of Cold War and of decades of socialist-type development, Eastern Europe started a political and economic transition process to be integrated into the global economy, and to be able to catch up to more developed countries and regions. In this path, the attraction of foreign direct investment was crucial, so most countries in Eastern Europe tried to give incentives to promote foreign direct investments. Recently, an increasing part of this capital is coming from emerging economies. With a dynamic economic performance and a growing global integratedness, the Turkish economy has also emerged as a capital investor abroad, and it has become one of the leading investors in its neighbouring regions. The changing Turkish foreign policy has also promoted the active presence of Turkish companies in neighbouring countries, as part of its new strategy aiming at strengthening the central position of Turkey in the region. In our study, we examine Turkish investments in Eastern Europe by focusing on location specific advantages of the region. We try to give a country- and a sector-specific overview of Turkish investment to detect the most important factors that attract Turkish investment to Eastern Europe.

JEL: F21, F23, G11

Keywords: Turkish multinationals. OFDI, Eastern Europe, location advantages

Introduction

The Eastern European region was opening-up for foreign direct investments (FDI) in the early 1990's when the re-integration of the region to the global economy and the restructuring of these economies needed increasing inflow of capital and technology. Though the majority of this capital originated from developed countries, investors from emerging economies had an increasing part in the FDI flows. Turkey is one of the G20 economies, Turkish companies are going global recently. For their activity, neighbouring

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countries and regions have a special importance: both due to the new political doctrine based on a growing activism in neighbouring countries, which promotes investments in these countries, and also due to the geographic and partly cultural proximity that helps firms (especially SMEs) to invest here.

In our study, we would like to examine the foreign capital attractiveness of Eastern European countries: what are the advantages these countries may offer for foreign investors. We put a special focus on Turkish investments in the region: how much they meet the general expectations, and what specificities can we discover.

1. Theoretical background and literature review

One of the popular theories of FDI is Dunning's eclectic paradigm, that identifies Ownership-Location-Internalization (OLI) as the main motivation for foreign investments. To be competitive in the international FDI market, firms need ownership-specific advantages. When combined with the locational advantages of host countries and those of internalizing transactions within their own corporate networks, ownership-specific advantages allow firms not only to survive in foreign markets, but also to prosper in competition with domestic rivals. (Sauvant 2008: 9)

The theoretical background was originally based on the experiences of multinationals comming from developed countries. In recent years, however, there is a growing number and importance of investors from developing countries. In this study, we are not concentrating on the motivations of these companies (why do they invest abroad), rather on the location-specific advantages of the countries where they invest. What we are looking for are the specific advantages that Eastern European countries can offer for EMNE (or in our case more specifically for Turkish companies).

If we examine the host country characteristics that attract FDI, we can see that the answer crucially depends on the motives of foreign investors in undertaking those investment projects. (Kinoshita – Campos 2003: 3) By the motivations, we used to differentiate between market-, resource- and efficiency-seeking investments.

By market-seeking investments, obviously it is the size of the market and its growth potential that makes FDI more profitabe, but tariffs and transport costs may also encourage this type of FDI. In connection to this we may add, that the larger the set-up costs of investments are, the more market-size matters. (Jaumotte, 2004)

Factor costs are important especially for resource- or asset-seeking investments of the manufacturing sector. By labour, it is not only wages, but although the availibility of adequately skilled labour that matters. Countries with better educational system, especially with a well-established vocational secondary education and a higher enrollment rate in tertiary education are more attractive for FDI. (Miningou – Tapsoba 2017: 18)

By analysing the importance of trade openness on FDI, we can find a rather positive impact. Addison and Heshmati (2003) investigated the relationship between FDI and trade openness in 110 developed and emerging countries for the period of 1970 to 1999 and found that trade openness has significant impact on FDI but this impact was comparatively small and varied by region. In later analyses, however, the positive correlation has crearly been increased. By using a sample of 36 developing countries (including Eastern European transition countries) for the period 1990-2008, Liargovas and Skandalis (2012) found a high correlation in the long run: trade openness contributes positively to the inflow of FDI.

Today it is widely acknowledged that trade and investment liberalisation consequentially has a positive impact on FDI inflows to these nations, and regional trade integrations helps these trends. Since regional trade agreements increase the openness of a country, by opening up economic and investment borders, they are also important promoter of FDI flows. (Shah – Khan, 2016) Regional trade agreements also create larger markets, and thus allow the better exploitation of economies of scale. FDI is not only attracted by regional trade integrations, it may actually catalyse these integration processes. (Jaumotte, 2004)

An other important factor worth mentioning by the attractiveness of investment location is distance: distance both from the major markets of the products, but also distance form the source company/country. Here we can find many proofs on the impact of gravity: larger distances reduces FDI flows. Blitzeris (2009: 96) finds that geographical proximity plays an important role in the choice of location, since there are low transportation costs and sufficient information on the country's conditions and investing opportunities. Many companies recognize opportunities to exploit the cultural closeness of their country with another country by providing products for the host market similar to the products provided in the home market or according to their tastes, needs and mentality (Blitzeris 2009: 95) The attractiveness of host country locations to foreign investors depends also upon the location's proximity to alternative locations. (Blanc-Brude et al 2014)

We should consider some specificities concerning EMNEs, investors from developing countres. FDI from the South has a more regional exposure than investment from developed countries, as common border and common distance appear to be more important for the former investors. (Aleksynska – Havrylchyk 2011: 24) For EMNEs, beside finance or technology, human resources with the experience of managing regional or global production networks are often the most important bottleneck. If an international expansion takes place through mergers and acquisitions (M&As), this experience becomes crucial as these typically pose the additional challenge of integrating already-established operations, often with their own distinct corporate culture, into a new corporate environment. (Sauvant 2008: 9)

A paradox that may occur is that most developing countries are in need of FDI themselves, but a number of their domestic firms make investments abroad. Here there might be a contradiction between macro economic (development economic) and micro economic (firm behavior) perspectives. (Culpan – Aksaoglu 2018: 180) Nevertheless, there may be government-level incentives in emerging economies to promote investment abroad.

2. Economic development and FDI in Eastern Europe.

In this part we analyse shorly economic development and the role of FDI in Eastern Europe, with a focus on subregional trends and specificities. We are going to differentiate three subregions in Eastern Europe. 1. Central and Eastern Europe (CEE), that consists of the four Visegrad countries (or V4, i.e. Czech Republic, Hungary, Poland and Slovakia) plus Slovenia, 2. the Post-Soviet Eastern Europe (PSEE), with Russia, Ukraine, Belarus, Moldova, and the three Caucasian Republics (Armenia, Azerbaijan, Georgia), and 3. South Eastern Europe (SEE), with Bulgaria, Croatia, Romania, plus the six Western Balkan countries (Albania, Bosnia-Herzegovina, Kosovo, Macedonia, Montenegro and Serbia).

After the end of the Cold War and the collapse of communism in Eastern Europe, the CEE countries carried out a relatively fast transformation process and were able to join the European Union by 2004. As members of the EU, the V4 countries and Slovenia became part of the European single market, they were eligible for European structural and cohesion funds, and they were attractive as markets and as production locations for investors. In the Balkans, the two former socialist countries, Romania and Bulgaria had weaker economies and underperforming democracies, which resulted in a slower transition process, and an EU accession with a 3 year delay, in 2007. The possibility of EU accession, however, prompted the two countries to implement crucial reforms. The EU accession process itself strengthened the confidence of foreign capital, and supported higher economic growth. In the remaining Western Balkan countries, the ethnic wars in Bosnia (1992-1995) and Kosovo (1998-1999) had detrimental effects on economies and societies. The economic and political reforms, and the EU-accession of these countries was substantially delayed: Croatia has joined the EU in 2013, while Montenegro, Serbia, Albania and Macedonia are still on the way. For Bosnia-Herzegovina and Kosovo the instablility in their political structure makes full-fledged EU-embership even further. Still, the positive developments in the SEE region recently have made the prospects of the Western Balkan countries much better than it was in the previous decades.

In the Post-Soviet Eastern Europe (PSEE), the transition process was equally difficult, while the strengthening of the Russian economy after the Millenium, its growing political activism in its neighbourhood and the lack of (or fading) EU perspectives have created a different path of development in the region. For Russia and Azerbaijan, the rise (and fall) of oil price has crucially influenced the economic performance. Armenia and Belarus are both depending on Russia, and they opted for a participation in the Russian-led Eurasian Customs Union. Ukraine, Moldova and Georgia tried to strengthen economic ties with the EU by signing a Deep and Comprehensive Free Trade Agreement. Russian involvment, however, was and still is threatening the territorial integrity of these countries, and thus it affects fundamentally their economic prospects.

Table 1: FDI in Eastern European countries (million USD, stock)

Country	1997	2007	2017
Post-Soviet Eastern Europe	**18,816**	**547,414**	**558,322**
Russia	13,612	488,280	446,595
Ukraine	2,064	38,048	50,970
Armenia	103	2,693	4,338
Azerbaijan	2,089	6,598	22,229
Belarus	506	4,483	17,972
Georgia	246	5,435	13,291
Moldova	196	1,877	2,927
Central Eastern Europe	**37,382**	**430,899**	**549,306**
Czech Republic	8,572	112,408	153,468
Hungary	13,282	95,469	93,332
Poland	11,463	164,370	234,441
Slovakia	2,046	47,713	52,032
Slovenia	2,019	10,939	16,033
South Eastern Europe	**3,758**	**154,444**	**237,842**
Albania	349	2,693	6,817
Bosnia	109	5,397	8,286
Bulgaria	1,059	37,936	47,838
Croatia	988	41,700	33,436
Macedonia	156	3,747	5,857
Montenegro	-	-	5,519
Romania	1097	61610	88,199
Serbia	-	1361	41,890

Source: UNCTAD

Undoubtedly, the inflow of FDI has helped the reconstruction of these economies and their integration to the world economy. Foreign capital has played a crucial role in the transformation process towards market-ruled economies, though due to the different development paths in these countries the participation of FDI was also manifold.

There was a strong geographic concentration of FDI flows, especially in the first period: the Czech Republic, Hungary and Poland were the main beneficieries, in the first decade of transition more than half of the FDI-stock went to these countries, mainly from Western Europe. While countries like Hungary introduced policies from the beginning to attract FDI, and foreign capital has played an important role in the privatisation process already, others followed a different approach, preferring domestic ownership by privatisation. The decisive role of FDI in shaping economic development in the V4 can be demonstrated also with the comparison to economic development of neighboring countries like Romania, Serbia or Croatia. The lack of the presence of multinational business largely explains the relatively weak development performance of these countries. (Szanyi 2016: 2)

Followed by the positive example of CEE countries, more and more countries has started to consider FDI as a potential driver of economic development during the transition process, and decided to open up their economies to FDI flows. In different manners and scale, almost all Eastern European countries introduced policies to attract FDI, the main instruments being direct subsidies, tax and import duty exemptions, and infrastructural developments helping foreign investors activities. (Günther-Kristalova, 2016)

Market size was also crucial for many investment types. While Russia, Ukraine and Poland are clearly the most promising markets regarding their size, regional integrations as the CEFTA agreement in the 1990s among V4 countries, or free trade agreements signed with the EU by CEE countries in the 1990s, SEE countries in the 2000s, and some PSEE countries in 2014 has affected this factor profoundly.

Regarding production factors, most countries in Eastern Europe with industrial development experiences were able to offer a relatively cheap, but well qualified labourforce, especially in manufacturing sectors. The underdeveloped infrastructure offered good investment opportunities in various sectors, especially in the physical infrastructure (transportation, telecommunication), but also in the financial and retail sector.

The institutional factors were also important: reliable institutions matter for foreign investors. (Günther-Kristalova, 2016) Thus, the EU integration process with a strict harmonisation of legal institutions to EU norms has been a strong impetus for foreign investments both in CEE countries and in the Balkans. Uncertainties related to different norms made investments more risky, especially for Western investors, while familiarity with the local environment, not only in legal, but in a broader sense (cultur, language, etc.) had a great attraction force.

The MNEs choose the country that maximizes the possibility of success for their investment plan. Each country offers different motives and incentives for investment and has different obstacles that are all submitted to considerable changes through time. Even when two countries hold the same properties, an MNE bases its investment decision on evaluation of all factors in relation with the corporate priorities and needs. (Blitzeris 2009: 378)

There is a substantial change in the dynamincs of FDI inflows to the region recently: while from the early 1990s up to 2007 there was a more or less continous increase in FDI inflows, after the global crisis this dynamics has broken, and the inflows have slowed down. As Hunya (2018) assesses the most propable trends, FDI activity will not return to the pre-financial crisis level due to the subdued investment appetite of multinational companies. The political support for FDI, especially in the CEE region focuses only on export-oriented investments with high-technology content; in other sectors domestic investors are preferred competitors.

Concerning the type of FDI, we can see a structural shift as well. The most important change is that efficiency-seeking FDI in the manufacturing sector, which has played a key role during the transition process of the region, has lost its relevance after the crisis. Reinvested earnings and the service sector dominate now FDI flows. (Szent-Iványi 2017: 241) FDI policies, however, still seem to focus on attracting large new investors, governments have not quite fully grasped these changes.

Greenfield investors face growing difficulties in meeting the employment demand. The strained labour market in CEE countries may hinder further FDI, unless investors consider moving further to the east. (Hunya 2018) The latter option is not very likely in the near future, as those eastern countries (such as Ukraine) still provide inferior business conditions and infrastructure. Maybe the Western Balkans can provide alternative locations offering an underutilised labour pool and improving infrastructure.

Transition countries seem to attract FDI regardless of their assessed level of sovereign default risk. This could be because single large investment projects may still be deemed very attractive and because market access, especially for consumer goods, is highly valued. (Günther-Kristalova 2016)

If we make a subregional comparision by focusing on the three subregions of Eastern Europe, we can find some specificities here as well. In the CEE region, the Netehrlands is the top investor, but, as mentioned above, Dutch investment may have different sources of capital behind their flag. Germany, Austria and France firms have also an important stake in these economies, the share of EU investors overall is well above 80%. In case of PSEE countries, we can see a stagnation of FDI inflows, mainly due to Russia, where inflows fell in 2017 to 25.3 billion USD, the second lowest level since 2006 (UNCTAD World Investment Report 2018). Since 2013, the geopolitical tensions between Russia, Ukraine and the Western countries, and also lower oil prices made the region less attractive for many foreign firms. The source of investments are sometimes also difficult to detect. In Russia, nearly 70 % of FDI came from countries typically considered as pass-through countries (Cyprus, Luxemburg, Bermuda or even the Netherlands), widely considered to be investments of Russian origin.[3]

In the SEE region, the largest investor, Austria accounted for almost one fifth of total foreign investments before the crisis. The artificial economic boom in this period was fuelled by financial flows led by expanding Austrian, Italian and Greek banks. After the crisis, however, these financial flows dried up, since not only Greek banks, but also Italian UniCredit and Austrian Erste Bank were recapitalising their affiliates and cut back on lending. By now, Russia took the no. 1 place as an investor in the Western Balkan countries, though the overall share of EU members together is still dominant.[4] As source of foreign capital we cannot forget the relevance of the different pre-accession

[3] https://www.bofit.fi/en/monitoring/weekly/2018/vw201824_3/

[4] https://wiiw.ac.at/recovery-amid-stabilising-economic-growth-press-conference-presentation-in-english--dlp-4224.pdf

aid and development programs of the EU (CARDS, IPA), pouring over €10bn into the region since 2001.

3. Turkish interests in Eastern Europe

In this part we focus on Turkish investors in Eastern Europe: what are the location-specific attractions of the region and the 3 subregions we analyse, and why is it interesting for Turkish FDI.

Turkey, as a relatively closed developing country, had few experiences with outward investment. After the 1960s, when Turkish workers began arriving to Europe, countries like Germany and the Netherlands became destination of Turkish financial and commercial firms, while from the 1970s, the increasing activity of Turkish constraction firms especially in the Middle East led to some outward capital flows. In the late 1980s and early 1990s capital liberalistion created a better environment for capital flows. The opening up of the Turkish economy increased domestic competition and turned the attention of Turkish firms towards markets abroad. The rather negative business climate in Turkey (high inflation, economic volatility) was another push factor for OFDI. (Szigetvári 2017) Erosion of home country competitive advantages with greater openness and increased foreign competition forced Turkish firms to evolve into Multinational Enterprises (MNEs). Challenged in their domestic market, they began to search for markets and technology to compete successfully in the global economy. (Aybar 2016: 80)

The transformation of Eastern Europe after the dissolution of the Soviet Union created a new political and economic environment for Turkey and for Turkish firms. By analysing the role of Eastern Europa as a location for Turkish OFDI, we consider both firm-specific advantages of the location, and also the factors influencing the official Turkish policy by promoting investments in these countries.

3.1 Opportunities for firms

The economic transformation of Eastern Europe in the transition period has created new business opportunities for Turkish firms, while the close geographic and cultural proximity to Turkey further spurred this process. (Yildiriz 2017:280)

In the empirical analysis of Turkish ODI over the 2002–2011 period, Aybar found that absolute size of the market, natural resource endowment and cultural proximity plays the most important role in the decisions of Turkish MNEs investments, though Turkish ODI has different motivations for EU and non-EU countries. (Aybar 2016: 90)

An other research found that source and host country incomes, distance/transport costs, market size, and openness appear to be the main determinants of Turkish FDI abroad. (Kayam – Hisamciklilar 2009: 14)

It also indicates that Turkish FDI seems to be mostly market seeking. Foreign markets are used as substitutes for the domestic market by Turkish FDI firms. Turkish FDI firms produce low quality alternatives to high quality products in host countries and therefore, as incomes in host countries increase, Turkish outward FDI may decrease (Kayam – Hisamciklilar 2009: 15)

A further finding of previous research shows, that firms that perceive location selection factors such as“geographical proximity”, “the growth rate of economy” and “level of unionization” to be highly significant prefer the greenfield investment type. (Anil Keskin et al 2012: 277)

There is a potencial for Turkish firms in cooperation with Eastern European parters in many aspects. (Djurica 2015: 17) 1. Global value chain integration. By forming joint ventures with local firms to increase competitivenessin the global economy. For those Turkish companies that export to the EU from Istanbul’s vicinity, where productions costs are on an upward trend, it may be more feasible to consider relocating part of their value chains to Eastern Europe to become more competitive in price and speed while maintaining quality. 2. Business process outsourcing. Firms providing specialized niche services make important contributions to competitiveness. The quality of human capital and low cost render certain urban centers potential service hubs for niche business services. (e.g. information communication technologies, design, media, marketing and consulting). (Djurica 2015: 18)

3.2 Political incentives: new foreign policy doctrine

In its modern history Turkey had quite limited relations with its direct neighbourhood. With its strong Western orientation, being a member of NATO, it had limited will and also possibility to create deeper cooperation with neighbouring countries. Eastern Europe has belonged to the Soviet block.[5] For long decades the attitude of Turkey towards the Balkans was quite passive and the relations were aggravated by both historical and ideological controversies (Tolay – Linden 2012). With the end of the Cold War, Turkey had to rethink its foreign policy doctrine.

The new foreign policy doctrine defined Turkey as a regional power, a natural heir of the Ottoman empire that has neglected its historic backyard, the neighbouring regions for too long. The new type of Turkish foreign policy activism is sometimes accused of being a kind of "neo-ottomanism". Although the official Turkish standpoint refuses it because of its negative connotations, it is obvious that the core areas of Turkish activism are in the neighboring regions once part of the Ottoman Empire: the Balkans, the Middle East, and the Caucasian region.

From the 15^{th} to the end of the 19^{th} century, most of the neighbouring regions of Turkey belonged to the Ottoman Empire. The memories of the Ottoman past still influence the countries. While in some countries and regions of the Balkans (Albania, Kosovo, parts of Bosnia-Hercegovina, FYROM, the Sandzak region in Serbia and Montenegro) especially the Muslim population preserves good memories of the Ottoman times, for others (e.g. Serbs), Turkish dominance awakes rather negative associations. During his 2009 visit in Bosnia-Hercegovina, Turkish Foreign Minister Ahmet Davutoğlu made a clear statement concerning the Balkans: "The Ottoman centuries of the Balkans were a success story. Now we have to reinvent this.... Turkey is back." (Poulain – Sakellariou 2012).

[5] The relations were also difficult with the Greece (due to Cyprus issue), and with Middle Eastern neighbours (due to the diplomatic recognition of Israel).

Turkish foreign policy concerning the Western Balkans was based on three main elements. First, the strengthening of good relations with traditional Balkan partners like Albania, Bosnia-Hercegovina, Macedonia and Kosovo. Second, a new opening and an improvement of relations with Bulgaria, Serbia and Montenegro, and as third element, strengthening the stability of the region by mediation and multilateral initiatives. The return of Turkey to the Balkans is marked by the intensification of economic ties and interests. Turkey signed free trade agreements with all Balkan countries, and also signed visa-free agreements with all countries that foster business ties between the countries as well.

The strengthening of Turkey's economic position in the neighbouring regions has belonged to the core focuses of the new doctrine. Under the 'zero problem to neighbours policy' Turkey has tried to improve its relation to all neighbours, and also to promote Turkish business activity abroad.

4. Turkish FDI in Eastern Europe – a sectoral and country-level comparision

The amount of Turkish foreign direct investments abroad have increased substantially in recent decades. From a total stock of 4.5 billion USD in 2001 it went up to 38 billion USD in 2017. The share of Eastern Europe went up from 20% in 2001 to 35% in 2007, but it has been decreased to under 10% by 2017. While in the first period Azerbaijan was the top target of Turkish FDI in the region, by 2017 the Balkan countries took over its place. Indirect investments make it harder to detect the final destination of investments: many Turkish investments in Eastern Europe (especially in EU-member countries) happens through Dutch companies.[6]

Overall, more firms have invested in Eastern Europe than in Western Europe, but the overall amount of investment is lower. It means that in general smaller size, risk-taking invested in Eastern Europe, while capital-intensive TMNEs with market knowledge and experience invested more in Western Europe. (Culpan-Akcaoglu: 2017) TMNEs were

[6] The Hungarian National Bank has datas revealing the ultimate controlling parent of FDI. It shows that Turkish investments in Hungary are more than the double, 55 million USD instead of 25 million. And based on single investment reports of companies, even these datas seems to be underestimated.

more adaptable to local conditions: they were not deterred by legal uncertainties, burocratic difficulties around obtaining licesces and permits, because they have experiences with similar problems at home. (Culpan-Akcaoglu 2017)

Table 2: Turkish FDI in Eastern Europe (million USD, stock)

Country	2001	2007	2017
Post Soviet Eastern Europe	**776**	**2636**	**1133**
Russia	166	180	233
Ukraine	7	39	94
Armenia	0	0	0
Azerbaijan	569	2,364	400
Belarus	0	0	77
Georgia	34	53	314
Moldova	0	0	15
Central Eastern Europe	**46**	**164**	**58**
Czech Republic	0	84	0
Hungary	43	70	25
Poland	3	8	31
Slovakia	0	2	2
Slovenia	-	-	-
South Eastern Europe	**112**	**313**	**2419**
Albania	0	53	610
Bosnia	0	44	226
Bulgaria	30	54	697
Croatia	0	0	166
Kosovo	0	0	201
Macedonia	0	0	147
Montenegro	0	0	24

Romania	82	162	203
Serbia	0	0	145
Total Eastern Europe	**934**	**3,113**	**3,610**
Total World	**4581**	**8806**	**37989**

Source: Turkish Central Bank

Concerning the sectoral patterns, the most important sector of Turkish outward FDI is finance. Out of the 38 billion USD of stock FDI abroad, 26 billion is in the financial sector, 3.8 bn in manufacturing (mostly food, textile, and metal products), 2.6 billion in the ICT, 1.8 billion in transportation and storage, 1.7 billion in wholeshale and retail trade, and 1.5 billion is in mining.

4.1Regional and country-level specificities

Among transition economies and developing countries, Russia is one of the top target country of Turkish capital. Russia, as one of the fastest growing markets in the world, became popular for foreign investors, but the specificities of the Russian market (e.g. weak institutional environment) required specific approach from investors. Turkish investors seemed to be succesful to cope with these obstackles. During 2003 and 2013, TMNEs made 105 investments (13 percent of their total worldwide greenfield investments) in Russia, and invested about 10 billion USD and created jobs for over 55 thousend people. (Bakir – Acur 2017: 215) In recent years, Ukraine and Belarus, two other relatively big and underinvested regions in the PSEE region have also become popular for Turkish investors. Beside real estate developments, investments in the financial sector and in manufacturing were the top targets.

In the Caucasus region, Azerbaijan was the top investment target for Turkish companies since the 1990s. In 2000, more than 1300 Turkish firms were operating in Azerbaijan. Until the end of 1990s, Turkish businesspeople had no rivals in the chaotic, but unexploited Azerbaijani market: Turkish experiences with market economy, ability to do business in corrupt environment, and cultural proximity were strong assets. (Bedirhanoglu 2016) They acted as intermediaries between Azeri and Western companies. Azerbaijan offered high profits, secure payment, and due to CIS, free access to other post-Soviet countries. The peak period of high profits was between 2005 and 2007, but even today the prospects of Azeri markets are good in a regional comparision. But there are risks as well, partly due to political pressure: Koç Holding sold its supermarket chain Ramstore to lokal Azersun, and left the market, a factory of DHT Metal was appropriated, some leading businessmen arrested. (Bedirhanoglu 2016)

South Eastern Europe (the Balkans) has an even larger importance for Turkish investors nowadays: many companies invest in the region as a first step towards becoming regional players. (Djurica 2015: 46) There are several characteristics of the Turkish investment strategy in th SEE region, some of which are applicable for other neighbouring regions. Financial investments have a crucial importance, the entry of Turkish banks into a country used to pave the way for further economic ties by offering valuable country-related knowledge to Turkish investors.

Brownfield investments are popular form for Turkish investors to enter these economies. Compared to greenfield investments, in this form there are less administrative barriers (permits needed for construction, registering property). Furthermore, acquiring active facilities allows investors to take over the existing workforce, significantly reducing the time until operations can start. (Djurica 2015: 47) However, as investment climate reforms speed up, and the EU accession talks of Western Balkan countries progress, greenfield investments may increase.

In the small market economies of the Balkans, the culture of doing business is similar to that in Turkey. Investing in these countries appears to be a low cost, low risk and high reward enterprise, so in many respects it is ideal for Turkish companies as a first location for going abroad, and to streamline their internationalization process in management and production practices, and to step further in more competitive EU-28 markets. (Djurica 2015: 50) A further advantage of SEE countries for investors is that multiple daily flights operated by Turkish Airlines to all capitals in the region facilitates integration. In many Balkan countries, Turkish Universities offer important opportunities to find Turkish-speaking high quality human capital. (Djurica 2015: 45)

The SEE region has become recently the most important target for Turkish investors in Eastern Europe. They mainly investments in infrastructure (communication, finance, retail trade, tourism, road construction), but manufacturing has a growing importance as well. All things considered, however, Turkey is a latecomer to the region. The EU countries capital seized control in crucial sectors (like German Deutsche Telekom in the telecom sectors, or Greek OTE in banking sectors). Greece keeps on playing a key economic role in the region, even though it has been particularly hit by the financial crisis. Turkey has lagged at targeting strategic sectors, being undercut also by Russian plans e.g. in the energy industry.

Two SEE countries, Romania and Bulgaria, were joining the EU in 2007, offering thus special opportunities for investment. Though Romania ranks only 11th in terms of total stock of Turkish OFDI, it is the third regarding the number of investors, i.e. the majority of Turkish investors are rather small and medium size. Turkish investors entered Romania with the purpose of either exploiting their firm-specific resources and capabilities, or acquiring and exploring new resources and capabilities which provide them with required competitive advantages. (Anil et al 2014: 441)

Their role in the Bulgarian economy – both in production and in employment – has grown significantly. Turkish investments in the country amount up to 2 billion USD. In addition to two Turkish capital based banks, there are close to 1500 small-medium and large Turkish firms operating in Bulgaria. 36 large projects were completed or are underway by Turkish construction companies amounting up to 1.5 billion USD.[7]

Turkey is among the top investors in Bosnia-Herzegovina, in Albania and especially in Kosovo. While Turkish investors were active in Macedonia as well, Serbia, Montenegro and Croatia were less attractive (or less hospitable) locations for long. Recently, however, we can see an appreciation of these economies: the EU accession process (Croatia is a member sinve 2013, Montenegro and Serbia has started the accession negotiations). Currently, there are Turkish direct investments totalling around 145 million USD in Serbia, mainly in the textile and food sectors, in retail trade and in entertainment.

Serbia welcomes Turkish investors, because unlike Western investors they go to underdeveloped areas (especially to the Sanjaks, a region with Muslim majority

[7] http://www.hurriyetdailynews.com/turkish-trade-minister-to-visit-bulgaria-in-bid-to-boost-bilateral-ties-138972

population).[8] There is a shift of Turkish interest in the Balkans towards economically more prosperous businesses. As a Bosnian politician said: „Turkey gives Bosnia love, and Serbia investments."[9] Turkish companies are aiming to get closer to the European market through Serbia's capital Belgrade. İrfan Özhamaratlı, vice chairman of the Istanbul Chamber of Industry (ICI), said Turkish companies have invested in Serbia to be close to the European market, noting that he sees the presence of Turkish companies in Serbia as a breakthrough with the intent of strengthening.[10] "Turkish companies do not intend to stay there. Investments are being made to increase additional capacity," he said. "Being in Serbia means moving fast and conducting flexible and low-capacity production. The terms are also suitable for investing there." For companies that want to reduce their logistics costs and time and increase their capacity, Serbia's favorable incentive system, high training power and lower minimum wage increase the attractiveness.[11]

Turkish MNEs investing in CEE countries seemed to prefer taking the advantage of growing markets and acting with cost-cutting concerns, in reality, however, their aim was rather to manage brand more effectively and to improve EU costumers' perceptions and attitudes towards their products. (Uray et al 2012: 332) According to official statistics of the Turkish Central Bank, the Turkish OFDI in the CEE countries is not too relevant: in 2017, Poland had 31 million USD of Turkish investment, Hungary had 25 million USD, Slovakia 2 million USD, while the Czech Republic 0. By making a deeper investigation based on other relevant sources, we can see, however, that a higher amount of Turkish capital and more Turkish MNEs are present in the region. Due to its proximity to Turkey, and partly due also to historical ties (e.g. Ottoman monuments, which makes Hungary more similer to Balkan countries from a Turkish viewpoint) Hungary was clearly the most important target among V4 countries for Turkish companies. The Turkish PM Binali Yıldırım, in his recent speech at the Turkey-Hungary Business Forum in Ankara put the number of Turkish investors in Hungary to over 500,

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8 https://www.reuters.com/article/us-balkans-turkey/spurned-by-eu-investors-balkans-looks-to-eager-turkey-idUSKCN1IJ20Y

9 https://foreignpolicy.com/2018/06/22/erdogan-is-making-the-ottoman-empire-great-again/

10 https://www.dailysabah.com/business/2018/03/16/turkish-companies-invest-in-belgrade-for-easier-access-to-europe

11 ibid.

having more than 100 million USD in investments in Hungary.[12] Osman Şahbaz, president of the Turkish Hungarian Businessmen Association called Hungary as the country best suited to be a bridge linking Turkey to Europe. "We should perceive Hungary as Turkey's door to the West," he commented, noting that the country is not only a member of the EU but is also well situated in Central Europe to play the role of a transit country in Turkey's trade with Western and Eastern Europe.[13]

While Poland is attractive for investments due to the size of its market, which makes it a favourable target for construction projects and real estate development, Slovakia may raise attention due to its Eurozone membership and proximity to Vienna. As a representative of TUİD in Istanbul Mehmet Seyfettin Küçük said „Slovakia, which is only 70 km away from Vienna and which, in contrast with Hungary, the Czech Republic and Poland exists in euro zone, must be in the agenda of Turkish businessmen." However, up to now, approximately 50 Turkish firms have investmented in the country, a total amount of 50 million USD.[14]

4.2 Sectoral comparision

Financial sector

Turkish banks started to open branches abroad in the 1990s and it gained momentum in the 2000s. A large portion of foreign branches was established in Europe and the Middle East. The number of Turkish banks' foreign branches has been rapidly increased in past decade. State-owned Ziraat Bank and İş Bank have the greatest number of foreign branches, followed by Garanti Bank and Halkbank[15], but several smaller Turkish banks were also invested abroad.

The presence of Turkish banks in Eastern Europe has created two crucial advantages for Turkish investors. These banks make it possible for Turkish investors to get in contact with bank managers and commercial banking representatives who can speak

[12] https://www.dailysabah.com/economy/2017/07/01/turkey-hungary-pledge-to-reinvigorate-economic-ties
[13] http://www.turkmacar.org.tr/index.php/component/content/article/258
[14] http://tuid.org.ua/en/the-turkish-slovakian-relationship-experinces-its-golden-era/
[15] https://www.dailysabah.com/business/2015/06/14/turkish-banks-have-doubled-their-foreign-branches

their language. Since one of the most significant constraints for growth in case of Turkish SMEs is language skills, the existence of Turkish speaking financial institutions in foreign markets appears to be a valuable asset. (Djurica 2015:) Furthermore, these banks can provide market intelligence for investors who are seeking to expand their operations to new destinations. As local players, senior level managers of these banks know in detail the national investment climate, the sectoral situation, potential barriers to entry and ways to overcome them. Additionally, they have a network of key economic and political actors that they can mobilize for serious investors. (Djurica 2015)

The Balkans is the Eastern European region where Turkish banks are the most active: they are present in almost all countries of the region. Halkbank was the first bank investing abroad, it started operation in Macedonia in 1993, today the Halkbank Skopje is Macedonia's third largest bank. ZiraatBank was opening its Sarajevo branch in 1997, the Ziraat Bank Bosnia was the first foreign-owned bank in Bosnia, and it still is among the largest players in the sector. In Albania, the first acquisition of a Turkish bank was in 2000, when Kentbank purchaised 60% of the privatised BKT, Albanias largest bank. In 2006, Çalık Holding bought these shares, and later on also bought the remaining 40 percent of shares of BKT from IFC and EBRD.

In Kosovo, the presence of Turkish banks is even more dominant. BKT began expanding to Kosovo in 2007, while TEB Paribas joint venture also entered the Kosovo market in 2008. Today Ziraatbank and Isbank are also operating in Kosovo.

Finally, in 2015, Turkish bank entered the most promising Western Balkan economy, Serbia, when Halkbank has acquired 77 percent of Serbian Cacanska Bank. Halkbank Serbia will reach around 90 million euros in capital and a size of more than 400 million euros in Serbia. In Croatia, Kentbank was purchaised in 2011 by SüzerGroup, a Turkish investor active in real estate, tourism and energy sectors. Kentbank is the only the 16th largest bank in Croatia with 22 mn euro own capital, but Süzer is trying to purchase other bank to increase the markett share of the bank. With joining the EU, Croatia became part of a larger market, thus offering better opportunities.[16] Many Turkish investors have been recently investing in the Balkans to be closer to the European

[16] https://www.total-croatia-news.com/business/28269-two-turkish-companies-considering-purchasing-konzum

market. Seeing this trend, Turkish banks are also conducting projects to help Turkish investors to operate more comfortably in the Balkans.

Two Turkish-owned banks are operating in Romania, Credit Europe and Garanti Bank Romania. While in case of Credit Europe the Turkish owner Finansbank was purchased by Greek and later Qatari investors[17], Garanti Bank Romania is held by Turkish Garanti Bankasi the majority shareholder of which is Spanish financial group Banco Bilbao Vizcaya Argentaria (BBVA). Two Turkish banks operates in Bulgaria as well, Ziraat Bank and D Bank, but the scope of their activities is small. Isbank tried to enter the Bulgarian market several years ago, but the Bulgarian National Bank (BNB) urged it to buy an existing institution rather. After Bulgaria's EU accession, the EU passport of Isbank's Germany subsidiary made it possible to enter the Bulgarian market without prior BNB permission.

In the PSEE region, Russia is the most promising operation field, mainly due to the size of the market. Currently 5 Turkish banks have branches in the country (Ziraat Bank, Garanti Bank, Is Bank, Fiba Bank, and Yapi Kredi). Though Ukraine is also a promising market with 40 million people, the first Turkish owned bank in Ukraine, CreditWest Bank was founded only in 2007, by Altinbas Holding. Both in Azerbaijan and in Georgia, there are two Turkish banks operating, Ziraat Bank and Yapi Kredi have subsidiaries in Azerbaijan, while Ziraat Bank and İşbank in Georgia.

Turkish financial activity in the V4 countries is not substantial. Halkbank had some financial interest in Hungary as minority owner of the Hungarian Volksbank, the majority of which (and Halkbank itself) is already acquired and renamed by Russain Sberbank.[18]

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[17] Amsterdam-based Finans International Holding NV, an arm of Turkish banking group Finansbank AS, acquired 50.07% in Banca de Credit Industrial si Comercial SA in 2000, and renamed it to Finansbank Romania. Finansbank Romania was renamed to Credit Europe Bank in line with the corporate stategy of the National Bank of Greece, which bought 46% in Finansbank and the rights on Finansbank brand in August 2006.In 2016, the Greeks sold their share in Finansbank to Qatari investors.

[18] https://www.halkbank.com.tr/en/international-banking/54/subsidiaries

Manufacturing

Concerning manufacturing, all regions were able to attract Turkish investments, though in various sectors. In the Balkans, the main sectors of Turkish investments are glass production, textile, chemical and steel industries, electric and vehicle components, and food industry. In Russia ceramics and glass, coal, oil and gas, food and tobacco, textile and constraction material sectors were also among the preferred sectors of TMNEs, while in Belarus textile industry, and production of building materials. In the CEE-countries electronics, textile, and vehicle components are the main sectrors of Turkish activities.

In sectors where proximity to primary input goods is important and investment costs are high, acquisition through privatization was an important opportunity. In general, Turkish investors kept working with the local labor force and initially brought plant managers from Turkey. However, as the knowhow transfer intensified, the number of Turkish managers and engineers significantly declined. (Djurica 2015) The integration of locals into top management positions created harmony and increased efficiency of the workforce. Many export-oriented SMEs or large firms wanted to strengthen their value chains and facilitate regional integration with their invesestments abroad.

One of the most important Turkish manufacturing investor is Sişecam. Şişecam, one of the Europe's leading flat glass company with 44 plants, 18 in Turkey and 26 abroad, e.g in Bulgaria and Russia. In Bulgaria, it produces in five factories, and invested more than $400m, with plans to double that investment if it can get tax breaks from the Bulgarian government.

In 2006, Şişecam's Soda Sanayi acquired 80 percent of Soda Plant Lukavac, a chemical plant located in Tuzla for 33mn USD, and with 25mn of debt[19]. The plant employs around 900 workers, and it became one of the top-exporters of the country. Not all acquisitions were so succesfull: another chemical sector issue was Caliskan's offer to take over Croatian Dina Petrokemija in 2012, and restart production on the island of Krk. The Turkish company was to invest a total of 20 mn euros, and the investor also aimed to settle debt agreements with suppliers that claim over 61 mn euros (Gov't gives 2012). In 2013, however, it has withdrawn from the agreement, and let Dina

[19] http://archive.glassonline.com/site/site/news/channelname/Statistics/channel/9/id/14334

Petrokemija to get in a bankrupcy settlement process. Another Turkish manufacturing FDI was Polimer Kaucuk's rubber and plastic article plant in Krakow. The US-based power management company Eaton Corporation has acquired the Turkish parent company, Polimer Kaucuk in 2012. Eaton wanted to make Turkey a regional base to better serve markets in Eastern Europe, the Middle East and North Africa.

Turkish companies has interest in **metal industries**, so many of the purchases were connected to this sector. In Bulgaria, the government sold the largest aluminium producing firm to a consortium of Turkey's FAF Metal and the local management-employee buyout Alumina Invest for 9 million USD in 1999. After that a 74% stake in the company was transferred to the private company Alumetal, where FAF Metal has a majority stake. Directly and indirectly, Turkey's FAF Metal is controlling some 91% in the aluminium maker. Alcomet is producing and exporting aluminum products, and employing 730 persons. In Montenegro, Turkey's Toscelik, part of the Tosyali Holding purchased the steel mill Zeljezara Niksic for 15 million USD in 2012. The mill was declared bankrupt in the previos year with debts of more then 200 million USD. In Azerbaijan, DHT Metal was established in 1996 as a joint venture of Turkey and Azerbaijan. DHT Holding was the first and largest Turkish company of Azerbaijan with a 950 personnel, and a production capacity of 450,000 tonnes of iron and steel. As a sign of non-ideal investment climate in Azerbaijan, DHT Metal's new iron and steel factory was appropriated by the Azeri government in 2010. (Bedirhanoglu 2016)

With a growing vehicle manufactoring cluster emerging in Eastern Europe, firms producing components to **automotive industry** become more important. Şişecam acquired 100% of the German Richard Fritz Gmbh in 2013. Since Richard Fritz has subsidiaries in Hungary and Slovakia, the TMNE became active in these countries as well. The Hungarian firm has otherwise 300 employes and annual revenues of over 30 million USD. Richard Fritz is a leading glass supplier for the automotive industry in the region.

Feka Automotive made an investment that amounts to EUR 15 million in the industrial area of Cuprija, Serbia in 2018. Initially they will hire 110 workers with a plan to increase their number to 1000. Feka Automotive is a Turkish family company that has been producing parts and components for the automotive industry for 30 years, chiefly lighting signalization, interior lights, rearview mirrors and water tanks. The company delivers its products worldwide and among its main clients are big enterprises such as Hyudai, Toyota, Ford, Fiat, General Motors, Renault and others.

Çağatay Kablo started construction of a cable production facility for the automobile industry in Skopje with an investment of 4 million euros in the first stage. The company will employ 100 people in the first phase, planning to invest an additional 3 million euros to expand the facility's capacity in the coming years. Murat Ticaret Kablo Sanayi A.Ş. initiated another investments of a 7,000-square-meter and 5-million-euro production facility in Skopje. The medium- and long-term target is 20,000 square meters and an investment of 15 million euros.[20]

In bearing manufactirung Rulmenti Barlad was one of the most successful Romanian company. It was acquired by the Turkish Kombassan (or today Bera Holding) in 2000. In 2007, Rulmenti Barlad (49%) and Turkish legal personalities bought MGM (Magyar Gördülőcsapágy Művek) from South Korean Hanwha for 3.5 million USD.[21]

Investment of manufactuters may have targeted brand building and distribution as well. In Poland and Slovakia, the largest Turkish investor is Arcelik, a firm belonging to Koç Holding. Arcelik is the 4th larges home appliance company in Europe. Its investment in the two V4 countries, Beko Poland and Beko Slovakia aims at helping the brand marketing and sales of products in the region. The production facilities of Arcelik are in lower wage countries, however. They have a refrigerator and washing machine Plant in Kirzhach, Russia, and an Arctic refrigerating appliances plant in Gaesti, Romania.

Another investment in brand representation is by EGE Seramik in **building materials** industry. The company owned by Polat Group is one of the largest producers of high-quality ceramic tiles, the Hungarian subsidiary of EGE Seramik is the regional distribution center of the firm.

Textile industry is one of the traditional sectors of the Turkish industry. Outward investment targeted partly the largest market: Russia. In the Russian textile sector, Turkey is the largest foreign investor. One of the largest investment projests abroad was

[20] https://www.dailysabah.com/economy/2018/07/13/turkish-investors-look-to-expand-further-in-balkans

[21] http://nol.hu/archivum/archiv-450087-257244

launched by Yesim Tekstil (owned by Nergiz Holding) started a huge, 350 million USD factory investment project in Dagestan. The location of investment is in one the lowest wage regions in Russia, which has a close cultural proximity to Turkey (e.g. Muslim population).

Can Ugurlucan, CEO of Retek, which develops the LACOSTE and SuperStep brands in Ukraine, said in an interview[22] that in Turkey it is easier to conduct business, there are fewer bureaucratic procedures, and more retail properties for retailers on the market. There are several advantages of doing business in Ukraine, however. Although the purchasing power still leaves much to be desired, consumer approach is improving, and retail has good potential: the size of the market is more than 40 million people, the population of Ukraine on the average is quite young, that creates a great development potential and the ability to grow its consumer. Moreover, geographically, Ukraine is located close to Turkey, and this significantly simplifies logistics. The market shows a positive dynamics of growth – the crisis "bottom" is over, and a gradual recovery begins. The own production of Ukraine in clothing is extremely limited, so the dependence on imports is high, while prices are rising because of the devaluation of the national currency.

A newly appreciated investment spot for Turkish textile companies is Serbia. Jeanci, a subsidiary of Turkish Yilteks operates in the southern Serbian city of Leskovac since 2010. Leskovac has a strong tradition in the textile industry. In 2015, Jeanci has opened a new textile plant in Krupanj as well, with further 150 workers. Turkish investors have strong interests in the Sandzak region. For Serbia, foreign investors are welcome especially in heavily underdeveloped regions, although this may raise political risks in ethnically mixed areas.[23]

As part of investments in brand building and distribution, Colin's jeans runs over 600 stores in 38 countries, with widespread network of stores in the largest potential markets, Russia, Ukraine and Roumania.

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[22] http://tusib.org/language/en/from-all-the-countries-neighboring-with-turkey-ukraine-has-the-best-prospects-interview-with-ceo-lacoste-and-superstep-can-ugurlucan/

[23] http://www.bilgesam.org/en/index.php?option=com_content&view=article&id=365:the-growing-turkish-serbian-alliance-in-curbing-domestic-regional-conflict&catid=95:analizler-balkanlar&Itemid=140

Textile investment may be connected to the construction material industry as well. Turkey's Beşler Tekstil and Belgium's Ravago plant to build a 20.5million euro insulation plant at Alsózsolca, Hungary. The plant will have a production capacity of 36,000ton/year, Ravago is a Belgium plastics manufacturer with operations in over 55 countries, while Beşler Tekstil is a Turkish textiles producer.

Bosnain Natron Maglaj was an esteemed European company enjoying high reputation in the field of production of various types of **paper and paper packaging**. Due to damages during war, it needed reconstruction and revitalisation. It was re-founded in 2005 by Hayat Holding Group from Turkey. Hayat-owned Kastamonu Entegre created a joint venture company with Natron Maglaj to invest in and revitalize the paper plant in Maglaj. This newly established company has inherited a 50-year-old tradition and experience in the paper industry, with 900 workers.

While Turkish OFDIs in Russia were characterized mainly by greenfiled investments, there were some large acquisitions in recent years. The largest one was in food and beverage sector: the acquisition of SABMiller's Russian and Ukrainian businesses by Anadolu Efes in 2011, for a total amount of 1.9 billion USD. Anadolu Efes was a company already established on Russian market, with several breweries and soft drink factories. The reason for taking over SABMillers breweries in Russia was primarily market seeking, not only towards Russia, but toward other CIS countries, Central Asian and MENA countries as well. Another OFDI by Andalu Efes in food and beverage sector was Coca-Cola İçecek's (CCI) Azeri investment. CCI is the 5th largest bottler in the Coca-Cola System, it is 50.3 percent owned by Anadolu Efes, 20.1 percent owned by the Coca-Cola Company, and the remaining is publicly traded on the Turkish stock exchanges. CCI Azerbaijan serves a consumer base of 10 million with 1 plant and more than 300 employees in Azerbaijan.

Mining

In mining OFDI, due to the high amount of fix capital needed, the largest TMNEs are able to be active. Turkish Petroleum Corporation (TPAO), the national oil company of Turkey, has so far invested more than 10 billionUSD in Azerbaijan. TPAO participates in four projects in Azerbaijan, particularly the development of the Azeri-Chirag-Gunashli block of oil fields, where it owns 6.75 percent of shares, Shah Deniz gas condensate field development (19 percent) and the Baku-Tbilisi-Ceyhan pipeline (6.53 percent).[24]

The second largest Turkish aquisition in Russia was the purchase of Mechel's Chrome division by Yildirim for 425 million USD. Russian Mechel's chrome division is a vertical integration consisting Voskhod Mining Plant in Kazakhstan and Tikhvin Ferroalloys Plant (TFP) in Russia.

Real estate development, constuction

In real estate development, Russia has attracted the largest amount of Turkish OFDI. Since the size of the market is crucial in this sector, all large Turkish construction companies are active in building, infrastructure and industrial construction (building e.g. shopping malls and hotels on their own account).

Among TMNEs, ENKA Holding was the most active one in Russia: they built a new terminal at Moscow's Sheremetyevo Airport, a Toyota car factory in St. Petersburg, and oil field infrastructure on Sakhalin Island, the State Duma. ENKA currently owns and manages 318,500 square metres of office space providing local headquarters and facilities to a variety of global firms and 230,000 square metres of shopping malls in Russia. In 1997, ENKA launched its first shopping mall and supermarket in Moscow, under the name Ramenka. Today, the number of supermarkets, hypermarkets and shopping malls owned and operated by Ramenka totals 63 in Russia, and collectively they serve over 135,000 customers daily.

In Ukraine, ONUR is the most active Turkish construction company. ONUR arrived to Ukraine in 2004, and first rose to public prominence thanks to a series of road, highway and infrastructure projects in Lviv and the surrounding region. The company currently employs aound 3000 people in Ukraine and has an expanding portfolio of Ukrainian projects including sections of the Kyiv-Chop, Kyiv-Kharkiv-Dovzhanskiy, and Kyiv-Odesa highways.[25] Another Turkish company, LIMAK signed a 224 million euro contract in 2016 to build a 4.5km metro line in Dnipropetrovsk, Ukraine. In energy production-related construction, Guris Insaat ve Muhendislik AS, part of the Guris group build a

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24 https://www.azernews.az/oil_and_gas/106715.html
25 https://foreignpolicy.com/sponsored/onur-group-capitalizing-on-new-opportunities-in-ukraine/

32.4-MW wind farm near Odessa. In Belarus, Turkish construction firms have undertaken 46 projects worth 918 million USD since 1991, when they started working in the country. Turkish Princess Group built Crown Plaza Hotel in Minsk for 34 million USD, but Turkis fimrs participate in the implementation of various other projects in the field of real estate.

Due to the oil price boom, Azerbaijan became an important target for Turkish construction companies that have invested 11 billion USD in 350 projects implemented in Azerbaijan since 2003. In Georgia, especially the beighbouring Ajara region and its center Batumi is target of Turkish investors. Batumi's center and the Black Sea shore have been remade by rows of luxury hotels and casinos, largely built with Turkish money.[26]

Turkish construction companies are also well presented in the flourishing Polish real estate market. Turkish Mesa Mesken (Euro Power Centrum) and Yenigun Construction (Yenigün Polska) are active in the Warsaw construction and real estate market. Gülermak, an other Turkish construction firm took part in the metro building project in Warsaw. In Hungary, Polat Group and its leader Adnan Polat are representeted in Hungary indirectly, by a Dutch firm, ALX, and by APD Real Estate owned by Polat. Polat, a good friend of Hungarian PM Orbán, is participating in several real estate development projects in the Hungarian capital.[27]

The Balkans have a special importance for Turkish construction companies: the region have an overproportional share in their oversea activities. The most active companies are Bechtel Enka and Limak Group.

Turkish firms held 4 projects in Kosovo until 2011, with a total value of $502 million. Bechtel Enka is the winner of a 700 million euro tender to build a motorway between Pristina and the Albanian Durres.

In Albania, the construction of a new international airport near the Albanian southwestern port city of Vlora is expected to be completed by the end of 2020. Cengiz, Kalyon and Kolin are responsiple for the design, construction, operation, maintenance

[26] https://eurasianet.org/georgians-wary-turkeys-rising-influence-batumi

[27] http://magyarnarancs.hu/belpol/a-torok-melo-99539

and management of the airport. The construction of Vlora airport is a 100 percent private investment estimated at 100 million euro.[28]

Sarajevo-Belgrade Highway project, planned to be built between Bosnia and Herzegovina's capital of Sarajevo and Serbia's capital of Belgrade with Turkey's support. The highway will be built on the two previously discussed routes. Set to connect Sarajevo and Belgrade via two different routes, the project is reported to cost around 1.8 billion euros. The project is planned to be built by Turkish firms using domestic labor force through a build-operate-transfer model.[29]

In Bosnia, an ethnically divided country in which Muslims make up majority, Turkey has spent 300 million euros in projects including reconstruction of mosques and Ottoman-era monuments[30]

Bulgaria is one of the major transit routes of the EU-Turkey trade. In 2012, Bulgaria, Turkey and Qatar agreed on a joint development of Bulgarian motorway system, the 300km long highway from Svilengrad (on the Turkish border) to Ruse (on Romanian border) will be built in a PPP construction for 800 million USD. Turkey had an important role in attracting Qatari capital into the project.[31] In construction, Doğuş Group recently completed the extension works of Sofia Metro line.

Turkish firms play an important role in construction, completing 166 projects with a value of 6.1 billion USD.

Other sevices

In telecommunication, Turkish Turkcell is one of the major players in the region. Astelit, a company in Ukraine in which Turkcell holds a 55 percent stake, began operating in 2005. The company was renamed to Lifecell in 2016. Lifecell is the largest Turkish investor in Ukraine with 2 billion USDof investment, of which 700 million USD was made after 2014. Turkcell has purchaised 80% share of the Belarusian GSM-

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[28] https://seenews.com/news/construction-of-albanias-vlora-airport-to-be-completed-by-2020-report-616494

[29] https://www.dailysabah.com/tourism/2018/05/08/turkey-serbia-cooperation-may-capitalize-on-tourism-opportunities

[30] https://www.reuters.com/article/us-balkans-turkey/spurned-by-eu-investors-balkans-looks-to-eager-turkey-idUSKCN1IJ20Y

[31] http://setimes.com/cocoon/setimes/xhtml/en_GB/features/setimes/features/2012/06/01/feature-03

operator JSC "BeST" in 2008 for 600 million USD. Turkcell conducts its mobile operations in growing markets like Azerbaijan, Moldova and Georgia through its subsidiary Fintur, in which Turkcell holds a 41.45 percent stake.

Turk Telekom, the major Turkish telecommunication company, owned in 55 percent by Saudi Oger, and 30 percent by the Turkish Treasury had interest in Hungary. In 2010, Turk Telekom bought 100 percent of data service provider Invitel International for 243 million USD to increase the firms competitiveness by entering new markets. The Turkish MNE gained control of a 27,000km fibre-optic network, a network of operations in 16 countries, and Invitel International subsidiaries AT-Invitel (Germany), Invitel International Hungary and EuroWeb Romania.[32]

In the Balkans, there are several Turkish telecom providers as well. Çalik Holding is the largest shareholder of the Albanian national telecommunication company Albtelecom. Çalik, together with its partner Turk Telecom bought 76 percent of the Albanian company in 2007 for 120 mn euro. Albtelecom serve one third of Albanian households, and cntrols more than 50% of the internet connections. Albtelecom is the owner of Eagle Mobile, the third largest mobile network operator in the country. CETEL (a Çalik affiliate) invested more then 70 million euro in the first three years in Eagle.

In the transport sector, the Balkans is the major filed of activity for Turkish firms. In 2008, Turkish Airlines bought 49 percent of the Bosnian national airline BiH Airlines. Albania's new national airline company, a joint venture with Turkey's flag carrier Turkish Airlines (THY), stakes of 49 percent, 41 percent and 10 percent are being held respectively by Turkish Airlines, MDN Investment SHPK and Albcontrol. The management rights of the two international airports in Pristina were bought by Limak (together with Aeroport de Lyon), planning to invest 100 million euro to build new terminals. Turkish TAV Airport Holding obtained the management rights of Skopje and Ohrid Airports in 2006 for 20 years, and a further 200 million euro of investments (reconstruction, new cargo buildings) are also to be launched. Turkey' port operator Global Ports Holding acquired the majority share package in Montenegros's largest commertial port (Port of Bar).

[32] https://www.telegeography.com/products/commsupdate/articles/2010/05/19/turk-telekom-acquires-100-of-invitel/

In the CEE region, Çelebi Ground Handling is one the main investor in transport related sectors. The firm was established in Hungary in 2005, it has an own capital of over 3 million USD, and annual revenues over 30 million USD. Beside the Budapest International Airport, Çelebi offers ground handling services in Mumbai and Delhi (India), and in Vienna/Austria, and it provides cargo management in Frankfurt (Germany) as well. In the logistic sector, Barsan Global Logisitcs bought a 50 percent stake in Transemex, which became the part of the global transportation and logictical network of the TMNE. Transemex Hungary has 140 employes, and annual revenues of over 15 million USD.

Turkish MNEs are present on the media market of V4 countries as well. Trader Media East is the largest classified advertising company in Central and Eastern Europe. It was established in 2005 and comprises the Russian, Baltic, CIS and Eastern European operations of Trader Classified Media. In 2009, 67.3 percent of the company were bought by Hürriyet AS, a Turkish media firm part of the Dogan Yayin Holding, at a cost of 500 million USD. TME is one of the leading marketplace for communities of generalist, real estate, auto and recruitment, with strong local brands, serving local markets in the Eastern European region.

The Balkan has a large, but underdeveloped tourism potential, were Turkish know-how and capital can be used. Doğuş Group is present in Croatia since 20 and has so far invested more than 300 million euros in various projects, mainly in hotels and luxury resorts, and employs around 350 employees.

Turkish companies are present in the education and the health system, Turkish Medicana agreed with Kosovan authorities to build an International Hospital. Turkish companies are popular in Kosovo, a lot of young people speak or study Turkish and see employment opportunities in Turkey.

Conclusion

After the end of the Cold War and the collapse of communism, Eastern Europe has emerged as a region that has a lot of ecxperiences with industrial development, but on the same time a region that needs a lot of capital and technology input for its modernisation and economic transformation process. While the CEE countries carried out a relatively fast transformation, and were able to join the European Union by 2004, the Post Soviet Eastern Europe (PSEE) and the South Eastern European countries had a much longer and more difficult transition process. Foreign capital has played a crucial role in the transformation process towards market-ruled economies, though due to the different development paths in these countries the participation of FDI was also manifold. While some countries were attracting foreign capital from the biggining, others were much more cautios, or the circumstances (wars, slow political or institutional transformation) made them more risky for foreign investors.

The role of OFDI in Turkey has been increased substantially in the last decade. Partly, because the rapidly growing Turkish economy and the structural changes in Turkey created a bunch of internationally competitive sectors and firms, but also due to political reasons: the changing Turkish foreign policy also promoted the active foreign presence of Turkish companies, especially in neighbouring countries.

The Eastern European region is undoubtedly one of the most attractive regions for Turkish investments recently. Though the largest share of Turkish OFDI is still directed towards more developed markets, Eastern Europe has many location-related advantages that makes here investments profitable for Turkish firms. Its market size: not only countries like Russia and Ukraine, but due to trade agreements smaller nations are also part of larger economic areas. The factor prices are still relatively low, espcially if we take into consideration the skills based on past industrial development in many countries. Some institutional specificities in these countries (burocracy, higher level of corruption) used to be mentioned as deterring factors for FDI, but those accustomed to such circumstances may find it familiar.

In our earlier research (Szigetvári 2017) we were looking for the motivations of TMNEs, and we found different reasons depending also on the type of firms and the sectors they are active in. There are Turkish firms making resource based investments, especially in Russia, in Central Asia and in the MENA region. Market seeking is also a common motivation of Turkish companies, and they are able to exploit their country-specific advantages: the experiences earned on the relatitively competitive, but institutionally underdeveloped Turkish domestic market. A continously increasing motivation of TMNEs for outward investment is the brand-building, and the upgrading of their technologies, to be able to compete on more developed markets as well.

Eastern Europe may also serve as an intermediare market for Turkish firms in their way to internationalisation, and towards more developed EU markets. Especially SMEs without experience in foreign investments may use Eastern Europe (and mostly Balkan countries) as first investment target. Here the geographic and cultural proximity, and the access to cheap and skilled labour are also among the core attractiveness of the region.

In the following phase of our research, we would like to go deeper into the motivations, drivers and location-specific considerations of Turkish investors in the CEE-countries. To be able to do that, we are planning to make interviews with responsibles of Turkish companies in the region, to get first handed and more specific information about it.

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