

TURKEY'S FOREIGN DIRECT INVESTMENTS: FACTORS DETERMINING
FOREIGN DIRECT INVESTMENTS OF TURKISH FIRMS IN THE
ENERGY SECTOR

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ABSTRACT

TURKEY'S FOREIGN DIRECT INVESTMENTS: FACTORS DETERMINING FOREIGN DIRECT INVESTMENTS OF TURKISH FIRMS IN THE ENERGY SECTOR

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The aim of this thesis to examine the recent progress of the Turkish firms' internationalization in the observed new markets, namely African region, and energy sector. Thus, this study attempts to understand Turkish firms' major motivations of foreign direct investments (FDIs) and implications of, if any, the policy elite's foreign economic policy preferences on Turkey's outward FDI. My findings revealed that the motivations specific to the companies are market diversification, ensuring energy security, the institutional environment in Turkey, capabilities specific to Turkish companies and cultural affinity. Besides, in the light of the literature on Turkey's foreign policy towards the African region, not only firm-level factors, and motivations but also the position of the government in promoting or supporting the outward FDI of Turkish firms have been empirically questioned.

Keywords: Outward Foreign Direct Investment, Emerging Multinational Corporations, Turkish Firms, Energy Sector

ÖZ

TÜRKİYE'NİN DOĞRUDAN YABANCI YATIRIMLARI: TÜRK FİRMALARININ ENERJİ SEKTÖRÜNDE YURTDIŐI YATIRIMLARINI BELİRLEYİCİ ETKENLER

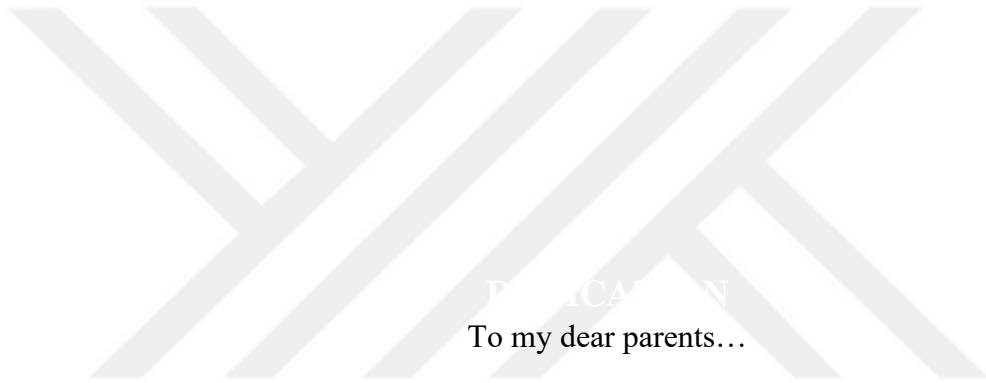
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Bu tezin amacı, Türk firmalarının gözlemlenen yeni pazarlarda, özellikle Afrika bölgesi ve enerji sektöründe uluslararasılaşmasının son dönemdeki gelişimini incelemektir. Bu nedenle, bu çalışma, Türk firmalarının doğrudan yabancı yatırımlarının ana motivasyonlarını ve eğer varsa, politika yapıcılarının Türkiye'nin dışarıya yapılan doğrudan yabancı yatırım üzerindeki dış ekonomik politika tercihlerinin sonuçlarını anlamaya çalışmaktadır. Bulgularım şirketlere özgü motivasyonların pazar çeşitlendirmesi, enerji güvenliğinin sağlanması, Türkiye'deki kurumsal ortam, Türk şirketlerine özgü yetenekler ve kültürel yakınlık olduğunu ortaya koymuştur. Ayrıca, Türkiye'nin Afrika bölgesine yönelik dış politikasına ilişkin literatür ışığında, sadece firma düzeyindeki faktörler ve motivasyonlar değil, aynı zamanda hükümetin Türk firmalarının dışa dönük doğrudan yabancı yatırımını teşvik etme veya destekleme konusundaki konumu da ampirik olarak sorgulanmıştır.

Anahtar Kelimeler: Dışa Doğrudan Yabancı Yatırım, Gelişmekte Olan Çok Uluslu Şirketler, Türk Firmaları, Enerji Sektörü



DECLARATION
To my dear parents...

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LIST OF ABBREVIATIONS

AFAD	:Disaster and Emergency Management Presidency
AKP	:Justice and Development Party
AUC	:African Union Commission
BRICS	:Brazil, Russia, India, China, and South Africa
DEİK	:Foreign Economic Relations Board
EMMNCs	:Emerging Market Multinational Corporations
EU	:European Union
FDI	:Foreign Direct Investment
IDT	:Investment Development Theory
JDECO	:Jerusalem District Electricity Company
GDP	:Gross Domestic Product
HPS	:Hydroelectric Power Stations
LLL	:Linkage, Leverage and Learning
MNC	:Multinational Corporations
MÜSİAD	:Independent Industrialists' and Businessperson's Association
NOI	:Net Outward Investment
OLI	:Ownership-Location-Internalization
PPP	:Purchasing Power Parity
R&D	:Research and Development
TAPI	:Turkmenistan, Afghanistan, Pakistan, India
TİM	:Turkish Exporters Assembly
TİKA	:Turkish Cooperation and Coordination Agency
TMB	:Turkish Contractors Association
TNC	:Transnational Corporation
TOBB	:Union of Chambers and Commodity Exchanges of Turkey
TPAO	:Turkish Petroleum
TRNC	:Turkish Republic of Northern Cyprus
TUSKON	:Confederation of Turkish Businessperson and Industrialists
TÜİK	:Turkish Statistical Institute

TÜSİAD :Turkish Industry & Business Association
USA :United States of America
boe/d :Barrels of oil equivalent per day



CHAPTER I

INTRODUCTION

In this thesis I focus on an understudied aspect of state-business relations regarding Turkey's outward FDI expansion in the observed new markets, namely African regions, and energy sector, in which we observe relatively new outward FDI by Turkish firms since 2010. In light of the literature on Turkey's foreign policy towards the Africa region not only firm-level characteristics and motivations but also the role of the state in encouraging or supporting Turkish firms' outward FDI has been empirically questioned.

FDI, one of the strategies to enter international markets, can be defined as “investment activities that reflect the permanent interest and administrative control of a company residing in a country” (UNCTAD 2006, 293). The expression of administrative control in the definition means that the firm has a capital share of at least 10% on the subsidiary, otherwise it is called portfolio investment (Nas et al. 2020, 595).

In the last 20 years, a considerable increase in outward FDI has been observed in developing countries (Hoskisson et al. 2013). At this juncture, the following question finds its place in the literature: Considering the institutional structure of host countries and their companies' international competitiveness, what motivations do play a role in the decisions of companies originating from developing countries to expand abroad? (Buckley et al. 2018). According to literature on FDI, there are some distinguishing features between developed and developing countries on their companies' way to internationalization (Buckley, Chen, Clegg, and Voss 2018; Cuervo-Cazurra 2012; Cui, Meyer, and Hu 2014; Luo and Tung 2007).

As a developing country, Turkey is a state that both attracts FDI and invests abroad. Following the economic and institutional transformation experienced after the 2000-2001 economic crises, Turkey's integration with global markets gained momentum and investments raised accordingly. According to UNCTAD World Investment Report between 1994 and 2002, "Turkey's outward FDI flows increased an annual average of 26 percent, the second highest rate among developing and transition economies after those of India" (Erdilek 2008). However, in the literature, there are not sufficient studies to understand the strategic behaviour of multinational corporations (MNC) of Turkish origin or their motivations and country preferences regarding their entry into foreign markets. Further, a specific focus on energy sector will be the subject of my research on Turkish MNCs that is justified below.

1.1. Research Question

Within the scope of the importance of the thesis topic defined above, the research question of the thesis is:

Which factors are important in Turkish firms' FDI in terms of major motivations of firms and implications of, if any, the policy elite's foreign economic policy preferences on Turkey's outward FDI?

I focus on the case of Turkey and FDI in the energy sector and particularly in Africa because (i) Turkey is accounted as the second-highest outward FDI following India between 1994 and 2002 (Erdilek, 2008), while its outward FDI increased further between 2005 and 2014; and decreased sharply afterwards (Figure 2.3.); (ii) Turkey's outward FDI in Africa continued to increase after 2015 (Figure 2.6.); and (iii) when the change in energy sector is observed over the years it is seen that (in official classification about Turkey's outward FDI database by the Central Bank of Turkey it is

labelled as “electricity, gas, steam, and air conditioning supply and mining and quarrying sectors”) the share of the "electricity, gas, steam and air conditioning supply" sector increased from 1% in 2012 to 12% in 2020 (Table 2.2.). On the other hand, although the share of the "mining and quarrying" sector, which reached 57% in 2014, experienced a gradual decrease in the following years, it is in the 2nd place with a percentage of 22% after the services sector in 2020 (Table 2.2.).

Several Turkish companies have become multinational companies at the regional or global level shows that Turkey is a significant foreign investor country (Aykut & Goldstein 2006, 85). Although Turkish companies have been engaged in large-scale production and trade activities abroad, especially since the 1990s, the subject of outward FDI of Turkey has been largely neglected except limited number of studies (Akçaoğlu 2005, 3; Kaya, 2005, 137; Anil, Tatoglu and Ozkasap 2014, 414; İlhan- Nas et al. 2020, 593). According to study of Köstem and Şen (2020, 86), there are limited number of studies among Turkish researchers examining the subjects of FDI, and Turkish transnational/multinational companies, especially the motivations and behaviours of these companies in international markets . The energy sector in Turkey's total FDI, and the distribution of FDI among countries in the energy sector is also understudied.

When we look at Turkish FDI by years and regions, we observe that the Southeast Europe, Middle East, and Africa regions have attracted Turkish FDI in the energy sector in recent years. Despite fluctuations and/or decline in other regions, Turkish outward FDI to African countries has increased in terms of volume (except 2015, Table 2.5.). However, the Africa region’s share as a percentage of total Turkish outward FDI has remained same and has been the smallest in the same years (particularly after 2014, Table 2.6.). Therefore, in this thesis a special attention is given to Turkey’s outward

FDI in the Africa region, where Turkish MNCs' FDI in the electricity, gas, steam, and air conditioning supply and mining and quarrying sectors is questioned.

In light of my research, it can be stated that although the Turkish firms' motivations for internationalization in border countries and the Africa region have similarities with the motivations and unique characteristics of developing countries' MNCs identified in the literature, a single theory is not sufficient to explain the motivations of Turkish MNCs in energy sector. The research results revealed the following motivations for Turkish MNCs in the energy sector: market seeking, ensuring energy security, rapid institutional change in Turkey, some distinctive organizational capabilities of Turkish firms, cultural ties with neighbouring geographies and lastly, government support for encouraging outward FDI by Turkish firms. Accordingly, I argue that the internationalization of Turkish companies has not been shaped only on the basis of company and country-specific advantages, which were discussed in the literature. Rather, one should also consider the importance of government policies that go beyond company level motivations in internationalization of Turkish firms in the energy sector.

1.2. Methodology

The semi-structured interview method is used to collect data within the scope of the research subject of the thesis. In order to determine the motivations of these companies, primary data, collected by face-to-face interviews with company officials in my sample, experts at the Ministry of Energy and Natural Resources, and academics, who research on Turkey's economic relations in the Africa region. I have also collected data from business specific reports related to Turkish companies outward FDI. In my interview questions (see Appendix 2), I ultimately aim to identify major motivations

of the companies outward FDI considering the factors I identified in my literature review and implications of, if any, policy elite's foreign economic policy making preferences regarding investment in Africa.

The thesis is divided into four chapters. In the introduction, the research question and the methodology are presented. The second chapter has three sections. The first section reviews the literature to outline a theoretical framework that explains and discusses the differences for the internationalization model between developed and developing country firms' motivations to expand abroad. The next section discusses the motivations of Turkish companies, which tend to expand abroad, especially in new geographies observed in recent years, and addresses the influence of the state on these investments. The last section focuses on the energy sector in Turkey's total outward FDI and questions the increasing role of Turkish companies in Africa given the observed trends by years and by regions.

In Chapter III, the thesis focuses on firm-level factors shaping the FDI motivation of Turkish energy companies and if any, the role of the state. In light of research findings, based on semi-structured interviews, I demonstrate the internationalization strategy of Turkish firms in my sample and discuss the explanatory power of existing theories for the motivations of these firms.

The fourth chapter concludes by highlighting the importance of my research findings according to the theoretical background presented in chapter 2 and discusses the internalization of Turkish energy firms in observed new markets, particularly Africa. In this chapter, I also acknowledge my research limitations.



CHAPTER II

THEORETICAL FRAMEWORK AND RESEARCH DESIGN

2.1. The Increase of Multinational Companies from Developing Countries

One of the critical changes in the direction of international investment has been the growth of FDI by multinational corporations in developing countries. These investments expanded participation in international production networks and increased openness to industry and trade. In the 1990s, more than a third of the investment in developing countries originated from other third-world countries based on studies using estimates from divergent sources.

In the 2000s, following the increase in the volume of FDI by developing countries' multinational corporations (MNCs), UNCTAD (2006) and academics (Aykut and Goldstein 2006; Dunning 2006; Khanna and Palepu 2006; Mathews 2006; Goldstein 2007; Ramkishan et al. 2008; Sauvart 2008), investigated FDI originating from developing countries and how their MNCs have been investing around the world in the early 2000s. These studies were called by some researchers as "third wave" or "south-south FDI" (Aykut and Rahta 2004).

With this process emerging at the beginning of the 2000s, developing countries such as Malaysia, South Africa, Chile, Russia, India, Thailand, China, and Turkey have also joined along with major investor countries. Briefly, recent big investor countries originating from developing countries have been subject to new studies examining the trends and factors shaping their FDI.

Multinational corporations from developing countries were observed earlier in the 1970s and 1980s, have undergone profound changes. These MNCs are more than niche players in financing, competitive institutional features, and creating financial arrangements that are essential in complex markets (Goldstein 2007, 1). Accordingly, it is noteworthy to draw attention to the growing role of the South as a source of investment for several reasons. First, the south-south investment relationship indicates that third world countries are becoming financially integrated ever more. Second, the south-south FDI trends may differ from the FDI made by northern countries. Finally, it shows that investment promotion agencies and policies should target the South as well as the North (Wells 1983).

While examining the south-south investments, Lecraw (1977) sought an answer to the question of why these investments are in the form of FDI rather than portfolio investment. According to Lecraw (1977), one of the reasons is that although portfolio investments are safe, their return is low when compared to the return from FDIs. Moreover, the role of home governments of developing countries' MNCs is emphasized. Although FDIs have some uncertainties, home countries provide some opportunities, such as eliminating some of the risks of operating in developing countries supporting high returns from FDI. For example, "by providing the appropriate legal and institutional environment, home country governments can create conditions that will induce their firms to invest overseas in ways that will produce gains for the home economy." (UNCTAD 2006).

In a few words, in the literature main motivations determining FDI by developing countries are resource exploration, market exploration, export-oriented investment, and technology. These motivations depend on various conditions and vary from country to country (UN 1993; Bell and Young 1998; Mirza 2000).

To identify these dissimilarities, it is essential to closely scrutinize the processes of expanding overseas in developing countries. Developing countries' FDI expansion can be divided into three periods: the first period from the 1970s until the mid-1980s, the second wave from the mid-1980s to the mid-1990s, and the third wave from the mid-1990s to the present. The third wave has some qualitative as well as quantitative deviations from other periods. The third wave is witnessing the emergence of more advanced organizational and structural forms of developing countries' MNCs. While the first period is dominated by import substitution methods and the second period by export-oriented strategies, in the third period developing countries' MNCs are increasingly global, developing more sophisticated and detailed geographical divisions of labour (Gammeltoft et al. 2010).

Accordingly, although there has been a growing literature on FDI by developing countries (Wells 1983), how these companies take a distinctive path different from the internationalization of companies from developed countries has remained untouched in the literature (Child and Rodrigues 2005; Ramamurti and Singh 2009).

2.1.a. Unique Features of Developing Country Multinationals

According to Lecraw (1977), the developing countries' MNCs are more independent and did not use input from and export to a transnational resource network. Bonaglia et al. (2006) also emphasized this characteristic of the MNCs from developing countries by explaining how these companies have succeeded by turning their late expansion in FDI into a competitive advantage. In the second period from the mid-1980s to the mid-1990s, pull factors, such as markets and technological innovations were leading. In other words, developing countries' MNCs have been investing to adapt to existing process and product technologies; and changing them to work at smaller scales

to produce at low cost (Tolentino 1993). These companies were not interested in exploiting the resources available. Rather they have been accessing to resources by international expansion (Peng and Wang 2000). The emergence of developing countries' MNCs is not because they have overwhelming domestic assets that can be used abroad, as in other developed countries' MNCs. In brief, late internationalizing MNCs from developing countries aimed to access resources not by exploiting existing resources or assets, but through international expansion to consolidate their short-term gains.

One more point highlighted in the literature in south-south FDI is that they may be more advantageous in providing existing inputs through local resources and having a grasp of more appropriate production processes. Besides, the smaller technological gap between developing countries' MNCs and domestic firms has a positive effect on the speed of investments (Aykut and Goldstein 2006).

Not only on supply side but also the demand side, emerging market MNCs (EMMNCs) are more familiar with the demands and capabilities of the countries in which they invest. In Uganda, for example, MTN (South African telecommunications company) has the opportunity to leverage its in-house expertise to launch more adequate service packages than those offered by its British competitor, which has the advantage of staying on task (Goldstein 2003). Managing economic and political risks is another area where EMMNCs have developed a relative advantage. For example, as of 2004 Egyptian Orascom is the only foreign telecom company operating in Iraq (Goldstein 2007, 42).

Considering the EMMNCs' unique features, some scholars developed alternative theoretical framework to explain the EMMNCs' investment behaviour. For instance, studies of Oman (1986) underlines that the success of EMMNCs in developing

countries lies in providing resources and services responding to the needs of other developing countries. “These firms are more willing to use non-traditional forms of FDI such as joint capital ventures, licensing, management agreements, turnkey operations.” (Lecraw 1977). Additionally, since the EMMNCs have similar levels of know-how; thus, they have no concern over losing their technological advantage to be transferred. Hence, the associated cash outflows abroad will be smaller. They are willing to form joint ventures with local entrepreneurs; they do not fear that a joint venture would result in loss of proprietary know how, quality control, or monopoly profits (Lecraw 1977).

According to the Linkage, Leverage and Learning (LLL) framework developed by Mathews (2002), internationalization processes of multinational enterprises of developing country origin have experienced a very rapid internationalization. The LLL model states that, in general, enterprises originating from developing countries can establish links with foreign enterprises (L-linkage) in order to overcome their deficiencies and these firms do not have the “superior advantages and sufficient resources” of developed countries’ firms. Other arguments of the hypothesis suggest that developing country firms gain internationalization skills through global collaborations, developing their own resources (L-leverage) and learning gained over time (L-learning).

2.1.b. Critics of Mainstream MNC Theories

As suggested below, while the conceptual and theoretical frameworks explaining the FDI by developed countries’ MNCs are reasonably well established in the international business literature, the nature of the strategies pursued by EMMNCs, and their specificity remain a relatively neglected issue (Bonaglia et al. Goldstein and Mathews 2006). The unique characteristics of emerging economy environments may imply that

they also generate different FDI pattern and the EMMNCs represent varying evolutionary trajectories from those of advanced economy MNCs.

To explain the diverse trajectories, it is essential to develop perspectives that deviate from orthodox theories explaining the international investments of developed countries, such as Dunning's Ownership-Location-Internalization (OLI) theory. The OLI Model explains the tendency of enterprises to participate in international production through FDI with the combination of ownership (O), location (L), and internalization (I) advantages. Ownership advantage in this structure is expressed by the degree to which businesses have assets that their competitors and potential competitors do not have or to obtain these resources under more favourable conditions (Dunning 1980, 9). Location superiority generally occurs when the enterprise locates its value-added activities in countries or regions that are thought to provide more advantages. These country-specific location advantages include market potential, market demand, potential demand, differences and similarities in legal, political, economic, and commercial policies, cultural factors, market infrastructure similarities, and lower production costs. Internalization, on the other hand, is related to the advantages that are obtained as a result of the evaluation of the assets owned by the enterprise by internalizing these resources instead of selling or leasing them to other enterprises (Dunning 1981).

However, the EMMNCs in the second (from the mid-1980s to the mid-1990s) and third period (from the mid-1990s to the present) have internationalized to reach the resources they are lacking and to build their advantage. Contrary to the investments made by other developed countries, these countries did not wait for internationalization to expand abroad. Rather, the EMMNCs initially grew up and then become international (Aykut and Goldstein 2006). As Yeung (2000, 12) states: The rise of second wave MNCs from emerging economies "is more driven by the search for markets and

technological innovations to compete successfully in the global economy, rather than cost factors.”

Figure 2.1. Sources and Destinations of FDI

		Destination of FDI	
		Developed country	Developing country
Source of FDI	Developed country	Cell 1 North–North FDI	Cell 2 North–South FDI <i>(Down-market FDI)</i>
	Developing country	Cell 4 South–North FDI <i>(Up-market FDI)</i>	Cell 3 South–South FDI <i>(Mostly down-market FDI)</i>

Source: Ramamurti 2012

Ramamurti (2012) classifies FDI according to the source countries and the destination of FDI. According to the author, the common point of the four cells in Figure 2.1. is that they require companies that make cross-border direct investments. Thus, a common set of concepts, frameworks, and theories, such as Dunning's (OLI) framework (Dunning 1977), the concept of "obligations to a foreigner" (Zaheer 1995), or theories like the stages model of internationalization (Johanson and Vahlne 1977) can provide an explanation within four cells. However, the only difference between the four cells is the status of a context variable -a country's level of development-, which can be developed or developing country.

Two hypotheses of the OLI theory have been criticized by Ramamurti and Singh (2009, 11). According to this theory, a firm can seize the opportunity to internationalize if it has some unique advantages that are not found in other firms, or if it has some advantages related to location. However, considering the context variables, they argue that this theory may only provide a general explanation. It is noteworthy that

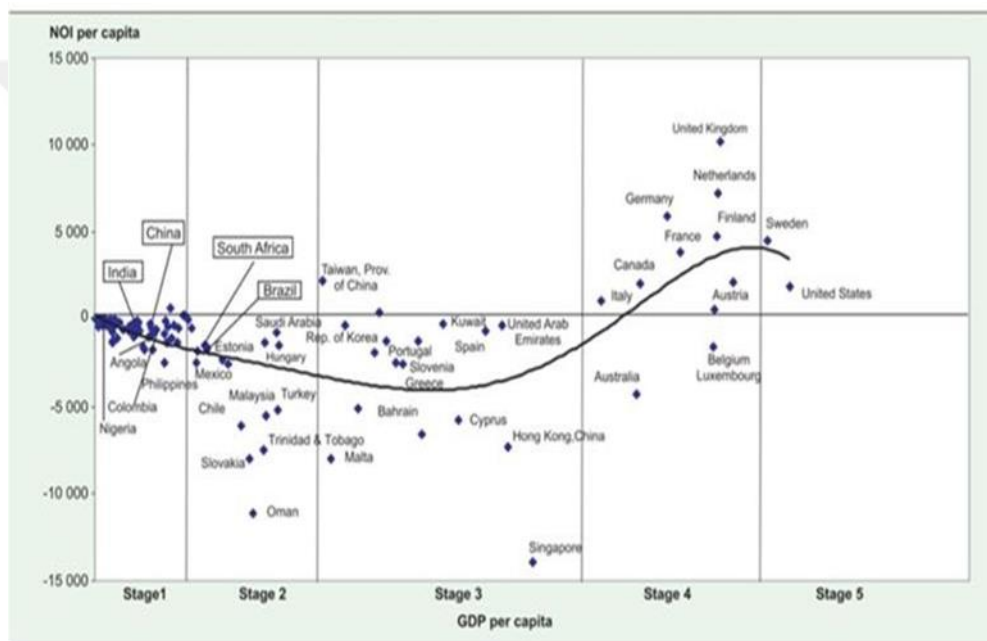
heterogeneity among firms should be considered in order to expand studies on FDI in developing countries because till 1990s a larger volume of FDI was realized in triad countries, which are the US, the West Europe countries and Japan. Thus, it is necessary to consider both the systematic heterogeneity observed in institutional competencies and the mechanisms governing the dynamics of interactions between firms, governments, and institutions (Ramamurti and Singh 2009).

The problem of why multinational companies are becoming widespread in developing countries is also discussed through the Investment Development Theory (IDT). According to this theory, “a country's outward and inward FDI position is systematically related to a country's level and structure of economic development.” (UNCTAD 2006). IDT argues that outward FDI is expected to occur only when it reaches a certain minimum level of development in a country. Accordingly, as the developing countries industrialize and in parallel to their progress in the industry and service sectors, or as they develop economically further, firm-specific advantages will emerge; and developing countries' firms will become competitive in the international arena (Dunning 1981, 1986; Dunning and Narula 1996; Narula 1996). However, when Figure 2.2. is examined, it is seen that IDT provides a limited explanation for at least two major reasons. First, in Figure 2.2., one can observe that countries with similar development levels (Gross Domestic Product (GDP) per capita) show different levels of net outward investment (NOI) per capita. Thus, beyond dissimilar levels and patterns of industrial development, one needs to consider the results of government policies (Babic, Garcia-Bernardo and Heemskerk 2020, 8; Chudnovsky and Lopez 2000; Oguz 2015, 347).

Further, location-specific considerations are needed in order to identify major factors shaping the net investment position of countries. For example, Singapore has a very negative NOI per capita despite its higher GDP per capita. This is a result of its

strategic location in Southeast Asia, making it a substantial location for multinational companies' regional headquarters, operations, and services (UNCTAD 2006). Second, some countries such as Brazil, China, India, Mexico, South Africa, and Turkey, which are home to leading transnational companies abroad, have started to engage in significant amounts of FDI outward earlier than the expected stage in the IDT (UNCTAD 2006).

Figure 2.2. Relationship between Net Outward FDI and GDP per capita, Selected Countries, 2004



Source: UNCTAD 2006

Another critique of the stages model of internationalization is made by Ramamurti and Singh (2009), who argues that the stage model does not regard the up-market investment of EMMNCs mostly in developed countries since the technological context and political economy environment deviates from the investment environment dominated by developed countries in the 1960s and 1970s. If researchers are looking for a more comprehensive explanation about the investments by the EMMNCs, the context becomes much more definitive.

In summary, both the UNCTAD (2006) and Ramamurti and Singh (2009) convincingly argue that several theories enabling explanation to transnational national corporations of developed countries are too general to explain divergent patterns of FDI from developing countries as well as to guide policymaking. Consequently, there is a need for an intermediate theory that considers the context of FDI in the explanation. Countries differ from each other in many dimensions, and context-dependent conditions should also be considered given time-dependent changes.

2.1.c. Questioning the Role of State in FDI from Emerging Markets

In the literature not only the unique features of EMMNCs but also the politics of governance or the role of state in the home country of the EMMNCs in which it thrives and in the host country in which it invests is studied. According to argument of Wang et al. (2012), government involvement is considerable through institutional pressures in the home country of a MNC from emerging markets along with various benefits affecting its willingness and ability to expand abroad in host countries. In the field of international political economy, the role of state in capitalist economies is studied extensively. For example, van Apeldoorn et al. (2012) classified the role of state as “representative, market creator or regulator of domestic capital.” The degree to which the state has exercised or expanded these asserted roles has historically been explained by Nölke (2014) through three different periods: in the late 19th century, mid-20th century, and now in the early 21st century. The last period has witnessed the rise of emerging economies, such as Brazil, Russia, India, China, and South Africa (BRICS) and East Asian countries. “The BRICS share of world gross national product (as measured in 2005 US dollar purchasing power parity (PPP) nearly doubled between 1997 and 2017, with an impressive increase from 15.4% to 30.4% between same years.” (Kutlay

2020). On the other hand, the share of the USA fell from 23% in 1997 to 18.2% in 2017 (Kutlay 2020, 688).

Thus, the expanding share of FDI from emerging markets can be considered by questioning the role of state and how it shapes the EMMNCs' FDI. In the literature two approaches, namely the resource-based and institutional perspectives are important to assess the role of the state in outward FDI from emerging markets. According to the resource-based perspective, although managerial decisions of EMMNCs are restrained by uncertainty and information asymmetry, these decisions are mainly driven by efficiency and competitiveness motives (Wang et al. 2012). In contrast to this view, the institutional perspective argues that the development of internationalization of firms is shaped more by the institutional environment like political, legal, and social rules in addition to strategic goals and efforts for economic optimization (Oliver 1997). Wang acknowledges that the institutional environment or the degree and level of participation of governments will vary significantly among emerging economies.

Seen in this light, distinct institutional pressures may lead to a specific path of internationalization by firms in the emerging markets. Evaluating the internationalization of firms in these countries by taking the resource based and institutional perspectives concomitantly would be helpful. For example, the resource-based perspective cannot explain why managers in the MNCs make economically suboptimal decisions and how they balance institutional and competitive pressures. Likewise, institutional pressures may not affect managers' desire for internationalization if the necessary resources are not available (Wang et al. 2012).

Within this framework, the role of state should be considered together with the alternative theories, which explain FDI from emerging markets and are reviewed in the previous sections. Thus, the concept of "state capacity" is important in examining the bargaining process between the EMMNCS and the host country. For example, Bakır (2015, 72) evaluates this process in three stages: mobilization, conflict, and resolution stages of multiple actors in different layers. He explains that the political, economic, and bureaucratic interests of the host states cause the conflict between the demands of their allies and opponents in the investments of multinational companies, and this conflict affects the bargaining outcome (Bakır 2015).

Due to problems, such as institutional uncertainty in developing countries, marketing seeking FDI in these countries has some risks (Ramamurti and Singh 2009). Considering such difficulties, governments can step in and lessen costs stemming from institutional uncertainty by promoting international standards that can accelerate the process of their MNCs expanding abroad. Intermediary services and resources provided by higher levels of government can also secure market power and facilitate access to privileged information about markets and business contacts. Thus, governments can open doors for international opportunities. Further, government involvement can improve their technological resources by accessing patents, research, and development (R&D), and other government-controlled resources that other companies cannot access (Wang et al. 2012; Peng and Luo 2000). Lastly, the government's role can be also critical for legitimacy of outward FDI.

For example, Babic, Bernardo and Heemskerk (2020), who examined how states have variable strategies while competing in the global economy for corporate control and financial returns, found that states have dissimilar motives for adopting these strategies. According to their findings, developed countries also have unique strategies,

when they take a role in FDI. For example, while Norway aims to secure future income for the public, France and Germany try to develop national champions with more emphasis on direct government intervention in outward FDI. China, on the other hand, aims to take its economic development models to the next level by making use of technology and access to information. Another study demonstrates that especially energy import dependent countries' concerns over energy security can encourage state supported or owned firms' participation in the global production network (Sıradağ 2018). Hence, this section draws up a landscape of the role of the state in the foreign expansion strategies of the companies of developing countries has been evaluated in general. The next part will focus specifically on the Turkish case.

2.2. Turkish Multinational Corporations

In light of the literature above, in this section I review the literature focusing on Turkey as case study of FDI from emerging markets or developing countries. In my review, I consider three distinct periods for FDI from developing countries and seek for common and different features or factors in the literature which is applicable for the case FDI from Turkey.

Until the 1980s, the Turkey's economic development largely depended on public sector investments. The reason is that import substitution policy was adopted using non-tariff barriers to support domestic industry in the 1960s. Therefore, FDI was not observed in significant amount during these years; it was limited to technology or know-how related sectors, such as automotive and medicine (Öniş 2019, 204).

Following the so-called 24 January economic reforms in 1980, Turkey has started a more liberal foreign economic policy, including abolishing control on foreign trade and privatizations. On the other hand, capital account was liberalized in August 1989

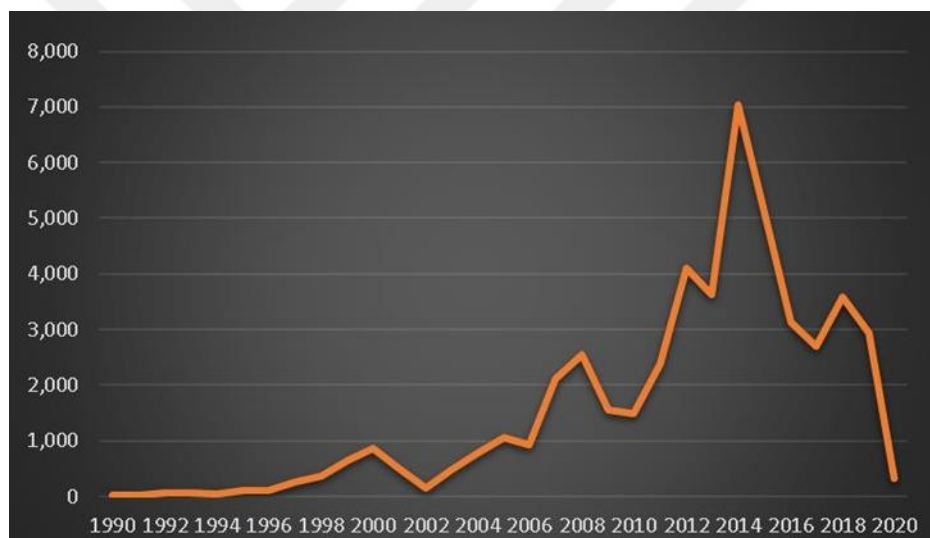
that paved the way for gradually increasing capital flows, including FDI and portfolio investment to Turkey. The main purpose of the post-1980 structural adjustment policies which were conditioned by the IMF through the debt crisis of Turkey was to move from an import-substitution based policy structure to export-based growth. The export-oriented growth model aimed to open the economy to foreign competition, lessen the role of the state and promote FDI (Arıcanlı and Rodrik 2014). Hence, “during the 1980s and 1990s, Turkey experienced relatively successful growth and export performance at the expense of real wages and rising income inequalities.” (Boratav and Yeldan 2006).

During Turkey’s liberalization process, Turkey’s outward and inward FDI flows boosted. As can be seen from the Figure 2.3. showing the outward FDI data of Turkish firms for the period 1990-2020, investments of Turkish investors displayed a commendable growth during the liberalization process. An additional factor contributing to the gradual increase in FDI was that following the disintegration of the Soviet Union into independent republics, Turkish businesspeople turned to the Eastern Europe and Central Asia for the exploration of business opportunities (Yildirim 2017).

According to the survey conducted by the Ministry of Commerce, it is seen that there are Turkish FDIs in 124 countries as of 2020. Although the distribution of countries invested abroad is wide, the top 30 of these countries account for 96% of the Turkey’s total outward FDI (Foreign Investment Report 2021). It is said that since 1989, government incentives have been implemented to encourage Turkish firms outward FDI into countries in the Eastern Europe and Central Asia regions. Following the 1994 economic crisis, FDI by Turkish investors accelerated investments compared to the rest of the world, including developing countries (Erdilek 2008). Claiming that Turkey's industrial and financial capital has transformed from a dominant capital

accumulation strategy to a dynamic accumulation strategy with the liberalization wave, Tür argues that (2011, 594) companies have pursued the latter strategy tend to invest in new regions and sectors. The new market opportunities in the newly independent Turkic Republics, the USA, Europe, Western Asia, the Balkans, the Russian Federation, North Africa, and Central Asia were facilitated by the ability of Turkish investors. Thus, Turkish FDI outflow increased further by an average of 26 percent annually from 1992 to 2004. Among emerging economies, Turkey had the second-highest outward FDI following India in between these years (Erdilek 2008).

Figure 2.3. FDI of Turkey, Net Outflows (BoP, Million USD)



Source: The World Bank

According to the data of Central Bank of Turkey when the FDI by Turkish companies are analysed by sector, the service has an increase with 75% in 2007 as a percentage of Turkey’s total FDIs. Although there was a deceleration in 2008, it became the sector with the highest share from 2015 in Turkey’s total FDI to the end of 2021. Under the service sector, the area that has reached the highest amount of investment in the last 2 years has been “financial and insurance activities” and following it “activities of

holding companies” (Table 2.2.). Mining and quarrying¹, on the other hand, is the sector with the most investment in 2005 in Turkey’s total FDI, although it decreased to 11% in 2012, it peaked in 2014 with 57%. Although, this sector has started to roll back gradually in the following years, it is in the 2nd place with a percentage of 22% after the services sector in 2020 (Table 2.2.).

Lastly, while there has been a decrease in Turkey's total outward FDI since 2015 (Figure 2.3.), the electricity, gas, steam, and air conditioning supply sector, has started to increase after 2008. This sector's share was 5% in 2011 but as a percentage of Turkey's total FDI, it has the highest increase reaching 12% in 2020 (Table 2.2.).

¹ In the balance of payment data of Central Bank of Turkey, the distribution of outward FDIs by sectors is published according to the EUROSTAT Statistical Classification of Economic Activities (NACE. Rev.2). In this classification, there are "05-Coal and lignite extraction, 06-Crude oil and natural gas extraction activities" in "B. Mining and Quarrying" under "INDUSTRIAL SECTORS". For this reason, in the sectoral distribution of the outward FDI, the focus is on the mining and quarrying, along with electricity, gas, steam, and air conditioning sectors within the scope of the energy sector in this thesis.

OUTWARD FDI POSITIONS OF TURKEY BY INDUSTRIAL SECTOR (million US dollars)																	
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
All FDI Activities	1,065	1,677	2,275	2,604	2,040	1,823	2,542	4,335	3,235	5,234	5,242	3,114	3,177	3,936	3,433	3,151	4,619
Agriculture, forestry and fishing	1	0	2	8	3	53	19	0	2	4	7	8	21	16	8	1	12
Mining and quarrying	506	456	343	264	254	233	298	471	750	2,985	1,869	1,094	1,007	831	734	693	1,004
Manufacturing	419	810	230	1,382	281	444	517	2,743	1,086	667	850	515	390	533	635	437	921
Electricity, gas, steam and air conditioning supply	0	0	0	2	17	21	125	52	83	158	117	50	18	387	33	383	88
Water supply; sewerage, waste management	0	0	0	0	0	0	4	0	0	0	0	0	0	0	0	0	5
Services	139	411	1,700	948	1,485	1,072	1,579	1,069	1,314	1,420	2,399	1,447	1,741	2,169	2,023	1,637	2,589
Construction	11	54	75	94	122	158	150	72	212	296	322	40	150	66	477	93	167
Wholesale and Retail Trade	8	42	21	20	22	35	21	48	101	123	70	86	120	45	104	108	154
Transportation and Storage	19	9	100	211	63	63	586	32	141	127	38	135	112	26	162	12	267
Accommodation and Food Service Activities	6	2	0	14	7	3	14	194	20	148	44	56	121	161	30	12	67
Information and Communication Services	28	78	125	362	245	110	17	45	69	7	656	72	107	66	40	358	65
Financial and Insurance Activities	52	202	1,352	175	694	549	590	379	514	507	801	551	453	1,189	462	625	934
Activities of Holding Companies	46	4	1,149	46	148	91	221	277	352	355	495	289	258	933	310	520	774
Real Estate Activities	1	1	12	13	267	66	114	217	180	130	390	359	567	433	372	282	526
Professional, Scientific and Technical Activities	0	0	7	11	34	34	37	38	21	20	13	14	14	52	275	26	33
Administrative and Support Service Activities	0	0	0	0	0	0	0	7	7	1	19	2	18	7	16	34	90
Public Administration and Defence, Compulsory Social Security	0	0	0	0	0	0	0	0	0	8	0	0	0	0	0	0	0
Education	0	0	0	0	6	4	2	2	2	8	0	0	1	11	1	2	3
Human Health and Social Work Activities	1	0	1	3	1	26	32	2	5	1	22	83	11	3	9	1	14
Arts, Entertainment and Recreation	0	0	2	0	0	4	0	0	3	7	0	0	3	0	0	1	3
Other Service Activities	13	23	5	45	24	20	16	30	39	37	24	49	64	110	75	83	264

Table 2.1. Outward FDI Positions of Turkey by Industrial Sector-Flow (Million US Dollars)

Source: Central Bank of the Republic of Turkey EVDS Data Central

OUTWARD FDI POSITIONS OF TURKEY BY INDUSTRIAL SECTOR (%)																	
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
All FDI Activities	1065	1677	2275	2604	2040	1823	2542	4335	3235	5234	5242	3114	3177	3936	3433	3151	4619
Agriculture, forestry and fishing	0%	0%	0%	0%	0%	3%	1%	0%	0%	0%	0%	0%	1%	0%	0%	0%	0%
Mining and quarrying	48%	27%	15%	10%	12%	13%	12%	11%	23%	57%	36%	35%	32%	21%	21%	22%	22%
Manufacturing	39%	48%	10%	53%	14%	24%	20%	63%	34%	13%	16%	17%	12%	14%	18%	14%	20%
Electricity, gas, steam and air conditioning supply	0%	0%	0%	0%	1%	1%	5%	1%	3%	3%	2%	2%	1%	10%	1%	12%	2%
Water supply; sewerage, waste management	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Services	13%	25%	75%	36%	73%	59%	62%	25%	41%	27%	46%	46%	55%	55%	59%	52%	56%
Construction	1%	3%	3%	36%	6%	9%	6%	2%	7%	6%	6%	1%	5%	2%	14%	3%	4%
Wholesale and Retail Trade	1%	3%	1%	21%	1%	2%	1%	3%	2%	1%	3%	1%	4%	1%	3%	3%	3%
Transportation and Storage	2%	1%	4%	8%	3%	3%	23%	1%	4%	2%	1%	4%	4%	1%	5%	0%	6%
Accommodation and Food Service Activities	1%	0%	0%	1%	0%	0%	1%	4%	1%	3%	1%	2%	4%	4%	1%	0%	1%
Information and Communication Services	3%	5%	5%	14%	12%	6%	1%	1%	2%	0%	13%	2%	3%	2%	1%	11%	1%
Financial and Insurance Activities	5%	12%	59%	7%	34%	30%	23%	9%	16%	10%	15%	18%	14%	30%	13%	20%	20%
Activities of Holding Companies	4%	0%	51%	2%	7%	5%	9%	6%	11%	7%	9%	9%	8%	24%	9%	17%	17%
Real Estate Activities	0%	0%	1%	0%	13%	4%	4%	5%	6%	2%	7%	12%	18%	11%	11%	9%	11%
Professional, Scientific and Technical Activities	0%	0%	0%	0%	2%	2%	1%	1%	1%	0%	0%	0%	0%	1%	8%	1%	1%
Administrative and Support Service Activities	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	1%	0%	0%	1%	2%
Public Administration and Defence, Compulsory Social Security	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Education	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Human Health and Social Work Activities	0%	0%	0%	0%	0%	1%	1%	0%	0%	0%	0%	3%	0%	0%	0%	0%	0%
Arts, Entertainment and Recreation	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Other Service Activities	1%	1%	0%	2%	1%	1%	1%	1%	1%	1%	0%	2%	2%	3%	2%	3%	6%

Table 2.2. Outward FDI Positions of Turkey by Industrial Sector-Flow (Million US Dollars) (%)

Source: Central Bank of the Republic of Turkey EVDS Data Central

Conglomerates	Main Industries
Anadolu Endüstri Holding A. Ş.	Food & beverages, automotive, finance, stationary, and health
Borusan Holding	Steel, distribution, energy, logistics and telecommunications.
Çalık Holding A.Ş.	Textiles, energy, construction, finance, logistics, and media.
Eczacıbaşı Group	Building products, healthcare, consumer products, finance, information technology, and welding technology.
Hacı Ömer Sabancı Holding A.Ş.	Banking, tire, tire reinforcement materials and automotive, retail, cement, energy, and insurance
Koç Holding	Energy, automotive, consumer durables, and finance
Tekfen Holding Inc.	Contracting, agro-industry, real estate development, banking, investment, and insurance

Table 2.3. Main Operating Industries of the Listed Conglomerates

Source: Kadir Has University, Foreign Economic Relations Board (Dış Ekonomik İlişkiler Kurulu, DEİK and Vale Columbia Center survey of Turkish multinationals).

In the literature regarding FDI from Turkey both economic and political factors are underlined to explain increasing activities of Turkish MNCs. According to Yeung (2000), the rise of Turkish MNCs belongs to the “second wave” of Third World Transnational Corporations (TNCs), “... where globalization is driven less by cost factors per se, but more so by the search for markets and technological innovations to compete successfully in the global economy.” (Yeung 2000, 12).

Based on findings of various studies, search for new markets has been main determinant in expansion of Turkish investors abroad and these markets have been used as a substitute for the domestic market (Anıl et al 2011; Heavilin, Jason and Songur 2020; Kayam and Hicarcıklılar 2009). Kayam and Hicarcıklılar (2009) point that the Turkish MNCs production has ranged from low-quality to high-quality products. Therefore, the authors underlined that when the income of the host countries increases, demand for low-quality products decreases which in turn results in decline of FDI based on

such production. The authors also included corruption risk and economic instability as a barrier to Turkish FDI in developing countries.

The studies that focuses on changing legal framework for inward FDI in Turkey presents that both the European Union (EU) accession process and the programs supported by the IMF and the World Bank have served as an important impetus for reforms, when the Justice and Development Party (Adalet ve Kalkınma Partisi, AKP) government came to power in 2002. To ensure continued IMF and World Bank support, the AKP government continued commitment to opening to FDI (Yildirim 2017). Turkey's FDI law numbered 4875 was replaced by the old FDI law numbered 6224 in 2003. This new law prohibited expropriation without just compensation. It guarantees national treatment to foreign investors. It replaces the old approval and screening system with a notification and registration system. It does not prohibit FDI in any sector and does not impose any performance requirement restrictions (Erdilek 2003). Moreover, in 2006, the government introduced HoldCos 4, providing an exemption from corporate tax on income from foreign enterprises that aimed to attract more inward FDI. In the early 2000s foreign investment was still seen as a capital flight and developing countries including Turkey was taking measures to increase FDI stock (Deichmann, Karidis, and Sayek 2013).

On the other hand, the AKP government has also started a program called Turkquality, which aims to develop brands in many fields such as electronics, textiles and automotive to promote and support Turkish companies investing abroad (Erdal and Tatoğlu 2002), these companies are turning their attention to new markets (Erdal and Tatoğlu 2002).

According to a survey, at the end of 2012, 326 Turkish MNCs were predominantly in Europe and Central Asia, 53 in the Middle East and Africa, 31 in East Asia, South Asia and developed Asia-Pacific, 16 of which were in the USA (İkiz 2019). On the other hand, regarding the motivations of Turkish MNCs, the same survey revealed that access to new markets and market diversification are the main drivers. Ensuring sustainable growth, risk management, access to natural resources and reducing costs were noted as other major factors affecting outward FDI decisions (İkiz 2019).

In Table 2.4., we observe that Turkey has the largest trade deficit in the Europe region since 2001 until 2018. The deficit with the Europe region has peaked in 2011 with 28 billion dollars. Although the trade deficit in the Europe region turned into a trade surplus in 2018 and continued to increase until 2019, it stalled afterwards to 3 billion dollars in 2020 due to the impact of the Covid-19 pandemic. When the Turkish outward FDI in the Europe region is examined, it is seen that the amount of outward FDI to this region has increased steadily from 2001 to 2020 (Table 2.5.).

On the other side, the trade deficit with the African region started at 1 billion dollars in 2001. This deficit turned into a trade surplus in 2008 and increased to 9 billion dollars in 2013. In this region, Turkey continued to have a trade surplus in the last 3 years, and the trade surplus, which was 11 billion dollars in 2019, decreased to 8 billion dollars in 2020 (Table 2.4.). Moreover, the amount of Turkish outward FDI in the Africa region was 86 million USD in 2007, it increased to 211 million USD in 2008. The OFDI rates in the African continent experienced fluctuations in the following years and saw the highest rate in 2017 with 83 million USD (Table 2.5.).

These findings are even more striking considering that while the percentage change in Turkish outward FDI to the Europe region between 2005 and 2018 is 82%, the

Turkish outward FDI to the African region is 93% with a much faster increase (calculated from Table 2.5.). It is noteworthy that there has been a parallel increase both in the trade volume of Turkish exporters to African countries and the Turkish outward FDI made in the Africa region in the same years, especially since 2008. For example, when we look at the years between 2005 and 2016, the trade volume to the Africa region, which increased by 79% (calculated from Table 2.4.), was followed by a 93% increase in FDI in the same years (calculated from Table 2.5.).

In Table 2.6., it is observed that Algeria has the largest share as a percentage of the total Turkish outward FDI in North African countries in 2019, while Egypt takes second place reaching 38% in 2019. However, in 2020, investments in Egypt leaped, and its percentage among North African countries rose to 63% in 2021. Libya, on the other hand, has continued to increase since 2001 and this increase continued until 2011 despite fluctuations in some years. Although the percentage share of other African countries among African countries has decreased in some years, it was 16% in 2011. Reaching 62% with a jump in 2015, other African countries experienced a decrease after that but increased to 53% again in 2019. Although the countries attracting the most outward FDI among other African countries have changed over the years, when we look at the percentage share among other African countries, South Africa has been the country with the highest investment between 2018 and 2021. Kenya, on the other hand, increased its share from 10% in 2015 to 17% in 2020.

On the other hand, countries in the group of Asia, Near and Middle East countries, which decreased until 2014, but reached 91% with a range of OFDI that reached the highest point in 2014, decreased again in the following years and decreased to 63% in 2018. Among the Near and Middle East countries, Azerbaijan has been the country with the highest FDI. However, the FDI in Azerbaijan, which fell to 21% in 2020, was

replaced by the United Arab Emirates, which rose by 76% in the same year (Table 2.6.).

In short, the figures and tables demonstrated above highlight important trends regarding Turkey's outward FDI by regions:

- First, while there have been some fluctuations in Turkish outward FDI by regions (Figure 2.4.), the Europe region always has the highest share in Turkey's total outward FDI between 2001 and 2020 (Table 2.6.).
- Second, Turkish outward FDI to the Near and Middle East Countries have declined considerably particularly after 2014 both in terms of volume (Table 2.5.) and as a percentage of total Turkish outward FDI (Table 2.6.).
- Third, despite fluctuations and/or decline in other regions, Turkish outward FDI to African countries has increased in terms of volume (except 2015, Table 2.5.), while its share as a percentage of total Turkish outward FDI has remained same albeit the smallest in the same years (particularly after 2014, Table 2.6.). Therefore, in this thesis a special attention is given to Turkey's outward FDI in Africa region, where Turkish MNCs' FDI in the electricity, gas, steam, and air conditioning supply and mining and quarrying sectors would be questioned.

COUNTRIES/REGIONS	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
TOTAL WORLD	1065	1677	2275	2604	2040	1823	2542	4335	3235	5234	5242	3114	3177	3936	3433	3151	4619
EUROPE	504	1104	1621	1370	1537	1254	1879	3502	2147	2207	3218	1716	1733	2755	2541	1659	2727
RUSSIA	7	14	50	77	101	73	88	162	107	84	62	10	16	35	102	44	45
AMERICA	22	40	83	533	73	59	54	177	251	485	1360	866	838	922	615	866	1377
AFRICA	5	15	86	211	36	40	38	50	69	48	34	67	83	75	34	23	18
NORTH AFRICA	5	13	77	185	34	34	32	43	65	45	13	58	74	51	16	17	8
ALGERIA	2	4	1	0	2	0	5	0	3	16	3	26	43	12	9	8	0
MOROCCO	0	0	0	4	2	7	1	18	20	1	8	7	29	1	5	2	0
LIBYA	2	4	3	3	9	9	1	2	2	0	0	0	0	0	0	0	0
EGYPT	1	5	26	17	20	18	22	20	38	7	7	23	23	10	6	4	5
TUNUSIA	0	0	47	161	1	0	3	3	2	2	2	1	1	0	0	0	1
OTHER AFRICAN COUNTRIES	0	2	9	26	2	6	6	7	4	3	21	9	9	24	18	6	10
BURKINA FASO	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
ETHIOPIA	0	0	4	6	0	0	0	1	2	0	2	2	2	4	0	0	0
IVORY COAST	0	0	0	0	0	0	0	0	0	2	0	0	0	0	0	0	1
GABON	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
GHANA	0	0	0	0	0	0	0	0	0	0	1	2	0	4	0	0	0
SOUTH AFRICA	0	0	1	0	0	0	3	0	0	0	9	0	0	7	6	3	0
CAMEROON	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	1
KENYA	0	0	0	0	0	0	0	0	0	2	1	1	4	2	1	0	0
LIBERIA	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
MADAGASCAR	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
MALAWI	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
MALI	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
MAURITIUS	0	0	0	16	0	0	0	0	0	0	0	0	4	0	1	2	0
MAURITANIA	0	0	0	0	0	0	0	0	3	3	2	2	0	0	0	0	0
MOZAMBIQUE	0	0	0	0	0	0	0	0	0	2	0	2	0	0	0	0	0
NIGER	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
NIGERIA	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0
SENEGAL	0	0	0	0	0	6	1	6	0	0	0	2	2	1	0	0	4
SEYCHELLES	0	0	0	0	0	0	2	0	0	0	0	0	0	0	0	0	0
SOMALIA	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
SUDAN	0	2	4	4	2	0	0	0	0	0	0	0	0	0	0	0	0
SWAZILAND	0	0	0	0	0	0	0	0	0	0	0	0	0	10	0	0	0
TANZANIA	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
ZAMBIA	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	2
ASIA	504	518	485	490	394	470	569	600	768	2483	630	464	523	182	241	591	466
NEAR AND MIDDLE EAST COUNTRIES	489	485	383	440	309	400	429	459	545	2,270	428	324	416	115	171	465	298
BAHRAIN	0	16	5	0	0	116	35	7	0	1	0	0	3	0	1	10	8
UNITED ARAB EMIRATES	1	2	14	29	17	11	4	34	23	114	28	37	66	11	33	354	243
IRAQ	0	0	9	0	35	11	27	20	17	181	28	41	65	7	1	0	0
AZERBAIJAN	481	441	337	273	238	216	297	373	450	1926	276	226	264	63	122	99	25
GEORGIA	0	26	11	6	3	6	25	12	44	31	22	15	6	24	8	2	10
OTHER ASIAN COUNTRIES	15	33	102	50	85	70	140	141	223	213	202	140	107	67	70	126	168
CHINA	2	2	9	1	4	19	9	18	19	5	20	33	10	19	4	12	29
OCEANIA AND POLAR REGIONS	30	0	0	0	0	0	2	6	0	6	0	1	0	1	0	0	10
UNCLASSIFIED	0	0	0	0	0	0	0	0	0	5	0	0	0	1	2	12	21

² **Table 2.5.** Countries with the Most Turkish FDI-Flow (Million USD)

Source: Central Bank of the Republic of Turkey EVDS Data Central

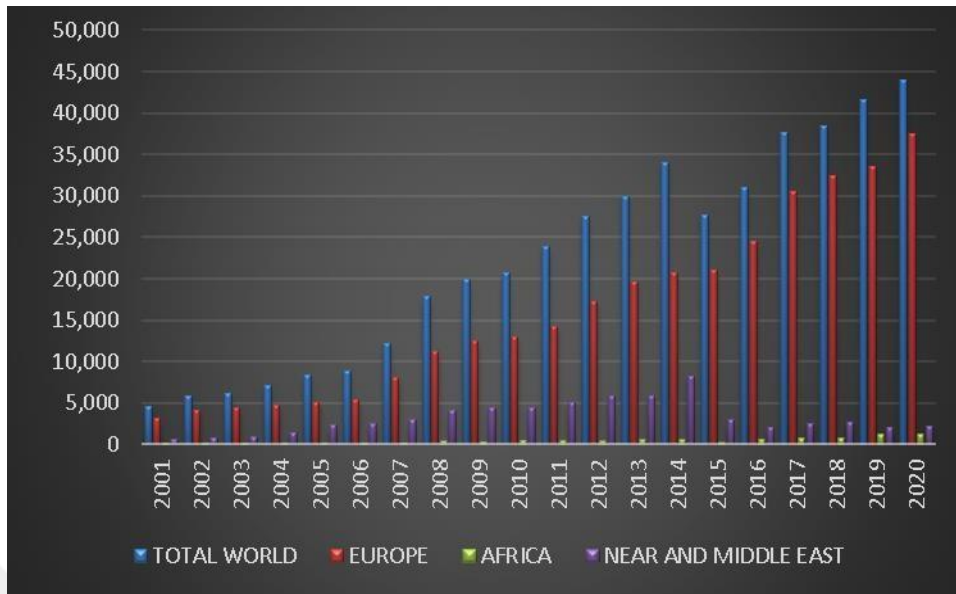
² The sum of the values of “Europe”, “America”, “Africa”, “Asia”, “Oceania and Polar Regions” and “Unclassified” by years gives the “Total World.”

COUNTRIES/REGIONS	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
TOTAL WORLD	1,065	1,677	2,275	2,604	2,040	1,823	2,542	4,335	3,235	5,234	5,242	3,114	3,177	3,936	3,433	3,151	4,619
EUROPE	47.3%	65.8%	71.3%	52.6%	75.3%	68.8%	73.9%	80.8%	66.4%	42.2%	61.4%	55.1%	54.5%	70.0%	74.0%	52.6%	59.0%
RUSSIA	1.4%	1.3%	3.1%	5.6%	6.6%	5.8%	4.7%	4.6%	5.0%	3.8%	1.9%	0.6%	0.9%	1.3%	4.0%	2.7%	1.7%
AMERICA	2.1%	2.4%	3.6%	20.5%	3.6%	3.2%	2.1%	4.1%	7.8%	9.3%	25.9%	27.8%	26.4%	23.4%	17.9%	27.5%	29.8%
AFRICA	0%	1%	4%	8%	2%	2%	1%	1%	2%	1%	1%	2%	3%	2%	1%	1%	0%
NORTH AFRICA	100%	87%	90%	88%	94%	85%	84%	86%	94%	94%	38%	87%	89%	68%	47%	74%	44%
ALGERIA	40%	31%	1%	0%	6%	0%	16%	0%	5%	36%	23%	45%	58%	24%	56%	47%	0%
MOROCCO	0%	0%	0%	2%	6%	21%	3%	42%	31%	44%	8%	14%	9%	57%	6%	29%	25%
LIBYA	40%	31%	4%	2%	26%	26%	3%	5%	3%	0%	0%	0%	0%	0%	0%	0%	0%
EGYPT	20%	38%	34%	9%	59%	53%	69%	47%	58%	16%	54%	40%	31%	20%	38%	24%	63%
TUNUSIA	0%	0%	61%	87%	3%	0%	9%	7%	3%	4%	15%	2%	1%	0%	0%	0%	13%
OTHER AFRICAN COUNTRIES	0%	13%	10%	12%	6%	15%	16%	14%	6%	6%	62%	13%	11%	32%	53%	26%	56%
BURKINA FASO	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
ETHIOPIA	0%	0%	44%	23%	0%	0%	0%	14%	50%	0%	10%	22%	22%	17%	0%	0%	0%
IVORY COAST	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	10%	0%	0%	0%	0%	0%	10%
GABON	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
GHANA	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	5%	22%	0%	17%	0%	0%	0%
SOUTH AFRICA	0%	0%	11%	0%	0%	0%	50%	0%	0%	43%	0%	0%	29%	33%	50%	0%	0%
CAMEROON	0%	0%	0%	0%	0%	0%	0%	0%	25%	0%	0%	0%	0%	0%	0%	0%	10%
KENYA	0%	0%	0%	0%	0%	0%	0%	0%	0%	10%	11%	11%	17%	11%	17%	0%	0%
LIBERIA	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
MADAGASCAR	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
MALAWI	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
MALI	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
MAURITIUS	0%	0%	0%	62%	0%	0%	0%	0%	0%	0%	0%	0%	0%	17%	0%	17%	20%
MAURITANIA	0%	0%	0%	0%	0%	0%	0%	0%	0%	100%	14%	22%	22%	0%	0%	0%	0%
MOZAMBIQUE	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	22%	0%	22%	0%	0%	0%	0%
NIGER	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
NIGERIA	0%	0%	0%	0%	0%	0%	0%	0%	25%	0%	0%	0%	0%	0%	0%	0%	0%
SENEGAL	0%	0%	0%	0%	0%	100%	17%	86%	0%	0%	0%	22%	22%	4%	0%	0%	40%
SEYCHELLES	0%	0%	0%	0%	0%	0%	33%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
SOMALIA	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
SUDAN	0%	100%	44%	15%	100%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
SWAZILAND	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	56%	0%	0%
TANZANIA	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
ZAMBIA	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	17%	20%
ASIA	47%	31%	21%	19%	19%	26%	22%	14%	24%	47%	12%	15%	16%	5%	7%	19%	10%
NEAR AND MIDDLE EAST COUNTRIES	97%	94%	79%	90%	78%	85%	75%	77%	71%	91%	68%	70%	80%	63%	71%	79%	64%
BAHRAIN	0%	3%	1%	0%	0%	29%	8%	2%	0%	0%	0%	0%	1%	0%	1%	2%	3%
UNITED ARAB EMIRATES	0%	0%	4%	7%	6%	3%	1%	7%	4%	5%	7%	11%	16%	10%	19%	76%	82%
IRAQ	0%	0%	2%	0%	11%	3%	6%	4%	3%	8%	7%	13%	16%	6%	1%	0%	0%
AZERBAIJAN	98%	91%	88%	62%	77%	54%	69%	81%	83%	85%	64%	70%	63%	55%	71%	21%	8%
GEORGIA	0%	5%	3%	1%	1%	2%	6%	3%	8%	1%	5%	5%	1%	21%	5%	0%	3%
OTHER ASIAN COUNTRIES	3%	6%	21%	10%	22%	15%	25%	24%	29%	9%	32%	30%	20%	37%	29%	21%	36%
CHINA	13%	6%	9%	2%	5%	27%	6%	13%	9%	2%	10%	24%	9%	28%	6%	10%	17%
OCEANIA AND POLAR REGIONS	3%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
UNCLASSIFIED	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%

Table 2.6. Countries with the Most Turkish FDI-Flow (Million USD) (%)

Source: Central Bank of the Republic of Turkey EVDS Data Central

Figure 2.4. Outward FDI of Turkey by Regions -Stock (Million USD)



Source: Central Bank of the Republic of Turkey EVDS Data Central

Not: The region total is given according to the countries with the highest FDI based on Table 2.4.

Summing up, the literature on Turkey's outward FDI underlines a common factor as a major motivation, which is access to new markets or market diversification. Accordingly, one can observe in Figure 2.4. and Table 2.5. that these new markets are countries in the Middle East and Africa regions. Nevertheless, there is a need for further empirical investigation to identify whether Turkish MNCs' major motivation to access new markets is in line with the expansion of FDI by developing countries in terms of the following:

- Changing qualitative features of developing countries' outward FDI during 2nd period (export-oriented strategies) and 3rd period (emergence of more advanced organizational forms of developing countries' MNCs, more global).
- Smaller technological gap between developing countries' MNCs and domestic firms or similar levels of know-how. Therefore, developing

countries' MNCs have no concern over losing their technological advantage to be transferred; and they can facilitate more appropriate production processes and source available inputs locally.

- familiarity with the demands and capabilities of the countries in which they invest.
- experience in managing economic and political risks in host countries.

In addition to firm level characteristics and motivations, the role of state in promoting or supporting Turkish firms' outward FDI needs to be questioned empirically. In the next section, I review the bulk of academic literature focusing on the role of state and implications of Turkish foreign policy for regional or country specific investment patterns to question further the important trends regarding Turkey's outward FDI by regions underlined above.

2.2.a. The role of state in FDI from Turkey

Regarding the role of state in FDI from Turkey, there are some studies that highlights the gradual shift in Turkish policy elites' preferences from neoliberal norms to state-led capitalism. According to Öniş and Yılmaz (2009), such a shift became evident after the 2008 financial crisis.

Turkey's increasing integration with regional markets dates to liberalization process since the 1980s. Accordingly, Turkey's foreign economic relations was conceptualized as "trading state" by Kirişçi (2009). In fact, the Turkish foreign trade increased from 19 billion US dollars in 1985 to 334 billion US dollars in 2008 (Kirişçi and Kaptanoğlu 2011). Further, Turkey's foreign policy activism has been subject to various studies. Most studies underlined that Turkey has acted with the ambition to become a regional power, especially in the Balkans, the Middle East, and North Africa, with the

multidimensional proactive foreign policy it has followed since 2001 (Öniş and Yılmaz 2009). However, as discussed earlier by Öniş and Yılmaz (2009), Turkish policy elite's preferences have shifted towards an assertive foreign policy emphasizing nationalism. Öniş (2019) argues that the shift in Turkey's preferences started to exhibit features closer to Russian-style state capitalism in the 2010s (Öniş 2019). In the aftermath of the 2008 global financial crisis, scepticism against the neoliberal economic policies was reflected in of some policy makers discourses in the AKP government. For example, Cemil Ertem, who was appointed as the chief economic advisor by the President Recep Tayyip Erdoğan in 2014, defined neoliberal orthodoxy as impoverishing and enslaving (Ertem 2017).

Within this framework, the Industrial Strategy Document adopted in 2011 is worth noting to trace the shift in the state's preferences regarding how the role of government should be in the economy. Positioning Turkey as a production base in Central Asia was one of the long-term goals of the industrial plan. The partnership of the public and private sectors was highlighted in which the role of government is defined as provider of credit or supporter of credit guarantee. Thus, "the Turkish government has stepped into mega projects, such as airports, railways, city hospitals, as well as improving the research and development (R&D) base." (Kutlay 2020, 692). According to the 2018 World Bank report,

Turkey became the fourth largest investor in infrastructure projects carried out in public-private partnerships, with an investment of 143 billion USD, after China, Brazil, and India. The world's top 10 private sponsors of these projects are Turkish companies with overlapping ownership in the construction, media, and energy sectors, which are reported to have close ties to the government (Kutlay 2020, 692).

Moreover, Turkish policy makers created a new sovereign wealth fund (Turkey Wealth Fund). The central budget fund, which controls US\$200 billion worth of public assets including those in Turkey Wealth Fund, was implemented to finance mega-scale infrastructure projects where private investment fell short (Kutlay 2020, 687).

In categorizing capitalist diversity, Alami and Dixon (2020) list three factors related to the role and form of the state: the nature and extent of state intervention, the nature of state-business relations, and the type of state. Regarding state-business relations in Turkey, Öniş and Kutlay (2013) emphasized that state-business relations in Turkey have traditionally been a short-term, non-compromising, polarized relationship. However, the authors argued that relations between special interest groups and state underwent a gradual transformation since 2001 economic crisis.

The new liberalization packages have led to the emergence of small-scale Anatolian companies that want to take advantage of the economic and financial opportunities in neighbouring countries. For example, the Independent Industrialists and Businessmen's Association (Müstakil Sanayici ve İş Adamları Derneği, MÜSİAD), which brings together small and medium-sized enterprises in Anatolia, has emphasized an east-oriented strategy as a priority, unlike the Turkish Industry & Business Association (Türkiye Sanayici ve İş Adamları Derneği, TÜSİAD), which is economically and politically western-oriented. Confederation of Turkish Businesspeople and Industrialists (Türkiye İş Adamları ve Sanayiciler Konfederasyonu, TUSKON), on the other hand, which was established in 2005, carries out its business in close cooperation with government institutions. Thus, MÜSİAD and TUSKON members have expressed a considerable ideological preference in addition to market opportunities in the Middle East region especially after the 2008 crisis (Tür 2011).

In this context, Öniş and Kutlay (2013) highlighted a remarkable development. Two leading business organizations, who have never met before, TÜSİAD and MÜSİAD which represents Turkey's largest industrial conglomerates came together twice following 2010. In addition to these organizations, the Union of Chambers and Commodity Exchanges of Turkey (Türkiye Odalar ve Borsalar Birliği, TOBB, TUSKON, Turkish Exporters Assembly (Türkiye İhracatçıları Meclisi, TIM), DEİK, Turkish Contractors Association (Türkiye Müteahhitler Birliği, TMB), Istanbul Chamber of Commerce, Diyarbakir Chamber of Commerce, Gaziantep Chamber of Commerce have gained more power and confidence over time in their interaction with the state (Kirişçi and Kaptanoğlu 2011).

In summary, in the literature state-business relations is considered important to understand Turkey's foreign policy activism during the AKP government. Accordingly, in this thesis I focus on an understudied aspect of state-business relations regarding Turkey's outward FDI expansion in the observed new markets, namely Africa region (see previous section 2.2. Figure 2.4., Table 2.5. and Table 2.6.) and specifically electricity, gas, steam and air conditioning supply and mining and quarrying sector, in which we observe relatively new outward FDI to this sector by Turkish firms since 2010 (Table 2.2.) and especially in Africa (Table 2.6.). In other words, Turkish firms' outward FDI in Africa is empirically understudied. It is essential to question not only the major motivations and characteristics of firm behaviour but also how changes in policy elite's foreign economic policy making regarding Turkey's outward FDI within the context of the government's priorities listed in the 2011 Industrial Strategy Document, deteriorating institutional environment in domestic politics, and preferences regarding Turkey's foreign policy towards Africa.

2.2.b. International Expansion of Turkish Energy Companies

The energy sector is one of the key sectors that has a potential to affect economic development. In addition, growing energy security concerns, increasing efficiency and maintaining low costs require the implementation of several government policies and promoting better coordination between different actors in energy sector. Although the studies examining internationalization of firms in other sectors are well documented, the same is not true for the firms in energy sector and most of the studies have been limited to developed countries (Mahmud and Şirin 2018). However, thanks to the liberalization of energy markets, emergence of regional energy markets and new renewable energy technologies, previous FDI limited to natural resources have spilled over into the electricity and natural gas sectors. Thus, FDI in the electricity and natural gas sectors have increased.

When we look at the case of Turkish FDI, we observe that the Middle East, South-east Europe, and Africa regions have attracted Turkish FDI in the energy sector in recent years. In addition to its domestic activities, Turkish Petroleum (Türkiye Petrolleri Anonim Ortaklığı, TPAO) contributes to Turkey's crude oil and natural gas supply in 2020 abroad; it continued its activities in Azerbaijan, Iraq, Russia, Afghanistan, and the Turkish Republic of Northern Cyprus (TRNC). Thus, TPAO's overseas hydrocarbon production was 94,993 boe/d abroad, with a total of 146,593 boe/d (TPAO Oil and Natural Gas Sector Report, 2020). At the Energy Workshop held by DEİK in 2015, it was underlined that Turkey is not only a transition zone and natural hub between energy resources and markets, but also a strategic player increasing energy production as a developing economy and has become a stand-alone energy player. Another striking point highlighted was that approximately 120 billion US dollars of

FDI will be made by the private sector until 2023; and the world will need 48 trillion US dollars of energy investment till 2035. Among all regions, Africa needs more investment in energy sector since 620 million people in Africa do not have access to electricity. Therefore, the investment opportunities in the energy sector and most notably abroad was underlined as a priority for Turkish energy companies that can result in investment of approximately 25 billion dollars in energy sector of the relevant regions until 2023 (DEİK 2015).

Alyanak (DEİK Energy Workshop 2015) stated that there have been three trends observed regarding Turkish investors in the energy sector. The first trend has been the additional incentives and opportunities of Turkish investors as a determining factor in their country selection. Alyanak added that the richer natural resources in the countries have been also a substantial decision factor. He stated that another trend observed regarding Turkish investors making energy investments abroad is that these investors already have facilities operating abroad and they feel the need to create a synergy by investing in the energy field to support these facilities. Finally, he added that the profitability ratios in the Turkish market are no longer satisfying some Turkish investors and they are investigating opportunities to enter markets abroad, which are still considered untouched.

According to Tepeciklioğlu (2017), “Turkey's recent interest in Africa's energy industry is largely related to the country's dependence on outside sources to meet the rapidly increasing energy demand which creates concerns about its energy security.” Although Turkey has been making FDI in energy sector through TPAO in the exploration, production, transportation, marketing and operation of the oil and natural gas resources in the Central Asian Turkish Republics since 1998, energy had a small share among other sectors in Turkey's total FDI until the 2000s. In parallel to Turkey's rapid

economic growth and consequent increase in its energy demand, especially after 2001, TPAO's FDI in Azerbaijan exceeded 2.5 billion dollars (DEİK Energy Workshop 2015).

Taking the above into account, in the next section, I focus on Turkey's growing foreign policy interests in the Africa region that was accompanied by Turkey's increasing trade relations and outward FDI between 2001 and 2020, especially since 2008 in this region (Table 2.4., Table 2.5., Figure 2.6. and Figure 2.7.) to elucidate further the context of Turkish MNCs' activities in the energy sector and particularly in the Africa region.

2.3. Turkey's Increasing Economic Activities in Africa

The African continent, which hosts precious metals along with natural gas and oil, has become a competitive field for developing countries such as China, Russia, India, and Japan, as well as its traditional partners, which have been operating for many years. The African continent, achieving significant economic growth figures in many countries, has also attracted the attention of Turkey in recent years. The increased cooperation between Turkey and African countries has been parallel to the increasing operations of Asian countries, such as India, China, South Korea and Malaysia in Africa.

Despite having historical and cultural ties, Turkey-Africa relations were stagnant until the beginning of the 21st century (Donelli and Laveggi 2016, 94). Africa has had to deal with vexed issues such as terrorism, internal conflict, and poverty that it has been exposed to for years during the decolonization process. Today, while these problems continue for many African countries, the potential natural resources and young population of the continent, together with the developing technology and

modernization, have attracted the attention of many countries, including Turkey, seeking new markets for exports and investment (Arslan 2018).

The increase in the interest towards African countries and the new activism followed in foreign policy are closely related to the structural transformation that started to be experienced in Turkey's economy in the 1980s. At the same time, a more active foreign policy began to be followed in this period when Turkey transitioned to a liberal economy. According to Tepeciklioğlu (2019), the economic group called the new bourgeoisie/Anatolian Tigers, which emerged with the liberalization wave in the 1980s, was influential in this transformation in foreign policy. One of the most noteworthy reasons for this is that this group puts pressure on the government to open alternative markets for the goods they produce, and they see the Middle East and Africa as the most suitable market. African opening is a striking illustration for small and medium-sized businesses, which is the engine of economic growth, especially for conservative businesspeople. One particularly salient point is that organizations consisting of small and medium-sized industrial production companies, such as MUSIAD and TUSKON, have taken steps in Africa, especially in the field of export.

The literature on Turkey's recent relations with Africa underlines not only economic interests but also, security dimension and shift in Turkish foreign policy orientation accompanied by changing ideas and values in political leadership. While Turkey's economic interest in Africa goes back to 1980s through its efforts in increasing exports of its relatively less competitive goods, improving Turkey's relations with Africa was on foreign policy agenda after the AKP government and former Foreign Minister Ahmet Davutoğlu's foreign policy prescription. It is seen that the traditional internal and external security perception has changed after the Turgut Özal period in Turkey, which has been trying to develop strategic relations with Asian, Middle

Eastern, and African countries since 1983 (Sıradağ 2018, 6). According to Özal, Turkey should take advantage of its geographical advantages and historical power and strive to develop its strategic relations with neighbouring countries that have been ignored until this period (Sıradağ 2018).

Besides, a following step in improving relations with African countries was taken during the period of former Foreign Minister İsmail Cem, when the Action Plan for the Opening to Africa was adopted in 1998. Cem envisioned pursuing a more active foreign policy in regions such as, the Balkans, the Middle East, Central Asia, and Africa by innovating the traditional western-oriented foreign policy understanding (Altun 2010).

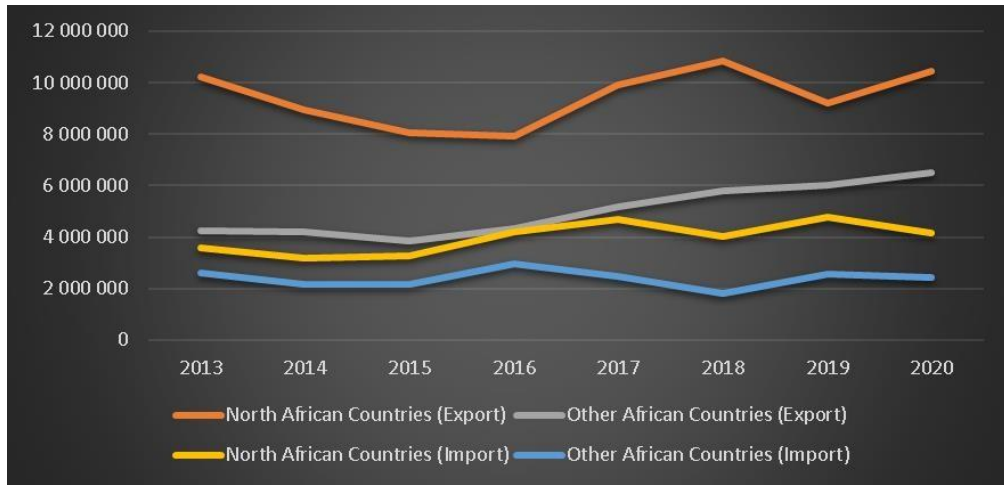
Bilateral relations gained momentum with the AKP government coming to power. Ahmet Davutoğlu, who was the foreign policy adviser to Recep Tayyip Erdoğan and then Minister of Foreign Affairs during the AKP government between 2009 and 2014, has perceived Turkey's foreign policy activism in its wider neighbourhood as a complement to the EU vision. Davutoğlu's vision was defined in detail in his book, titled *Strategic Depth* emphasized a country's power to be measured by its economic, diplomatic, and cultural activities in other regions (Davutoğlu 2001). Accordingly, especially the "Africa Action Plan" that has been put into practice since 1998, the declaration of 2005 as the "Year of Africa", the "First Turkey-Africa Partnership Summit" in 2008 and the "Second Turkey-Africa Partnership Summit" in 2014 have been part of the continuing economic and foreign policy towards the development of relations between Turkey and African countries (Presidency of the Republic of Turkey 2021).

Turkey's increasing presence in Africa was also observed in the amount of trade between 2016-2020. As can be seen from the Figure 2.6., Turkey's total trade activities

with African countries increased compared to previous years, except for 2008/9 economic crises and 2020 Covid-19 pandemic impact. For example, Turkey's exports to Africa rose from USD 11.9 billion in 2016 to USD 16.6 billion in 2019. Turkey has expanded its trade and investment volume by offering tariff preferences and/or duty-free privileges to African countries (Bayram 2020). As it can be observed in Figure 2.6., Turkey's trade surplus with Africa has been noteworthy for expanding its economic activities given Turkey's perennial trade deficit problem. Moreover, the increase in Turkey's exports and outward FDI from Turkey to Africa can also be complementary that needs to be questioned in light of this thesis research question (Figure 2.6. and Figure 2.7.). Turkey's FDIs in the continent, which was 22 million in 2001, reached 6.7 billion dollars as of 2019 (Figure 2.6.).

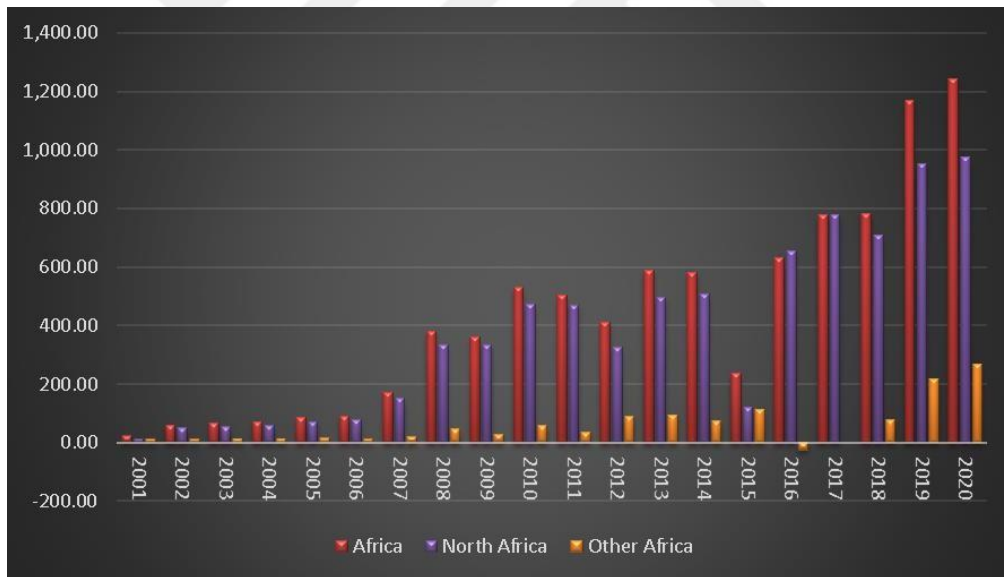
The study of Aman and Kaplan (2017) examining Turkey's FDIs in Africa using the gravity model, reached various determinants. The authors findings demonstrate that GDP size, per capita income, improved levels of economic freedom and corruption, shared religion, improved ease of doing business and better political stability are vital in attracting FDI from Turkey to Africa in general and Sub-Saharan Africa in particular (Aman and Kaplan 2017). Nevertheless, in my thesis I question not only host country specific features but also the state's role in Turkey's increasing economic activism particularly in Africa.

Figure 2.5. Imports and Exports of Turkey in Africa



Source: Turkish Statistical Institute (Türkiye İstatistik Kurumu, TÜİK) Data Portal

Figure 2.6. Outward FDI of Turkey in Africa (Million USD)



Source: Central Bank of the Republic of Turkey EVDS Data Central

Another study that focuses on boosting economic ties and cooperation between state and non-state actors in Turkey's African policy since the 2000s argues that the Turkish government is increasingly relying on the cooperation of non-state actors in the implementation of Turkish foreign policy (İpek and Biltekin 2013).

The authors evaluated the participation of non-state actors in foreign policy by subjecting them to four separate classifications. The first one is cooperative interaction in evaluating Turkey's foreign policy towards Sub-Saharan Africa. İpek and Biltekin (2013) consider the AKP government's goals of establishing new connections with African countries, creating new export markets, and thus meeting the needs of small and medium-sized enterprises in Anatolia, as the first classification, cooperative interaction.

The second group of complementary interactions is the official visits of the Turkish government to Africa that act in line with official foreign policy objectives but provide benefits in various areas to sovereignty free and sovereignty bound actors. While the businesspeople participating in the visits pursue their private interests, the sovereignty bound actors get the opportunity to legitimize their policies through private funds and at the same time increase their credibility in the target countries (İpek and Biltekin 2013). For example, close to 3,000 people from Turkey and 49 African countries participated in the Turkey-Africa Economy and Business Forum organized in 2021 jointly by the Turkish Ministry of Economy, African Union Commission (AUC), DEİK, and with the contributions of the TİM. It brought businesspeople top ranking officials and entrepreneurs together (TABEF Report 2021). The third group of supplementary interaction can arise from private business activities and minimum involvement of sovereignty bound actors. Relations between the government and special interest groups can provide an opportunity to ignite independent commercial relations. More interaction with government officials has helped Turkish companies increase their access to target countries and increase their field of activity (İpek and Biltekin 2013).

Kirişçi and Kaptanoğlu state that (2011) the lobbying activities of Turkish companies and collaborations are remarkable in the development of the Open-Door Policy.

The increasing trade relations and FDI by Turkish companies have been accompanied by increasing activities of government institutions, especially Turkish Cooperation and Coordination Agency (Türk İşbirliği ve Koordinasyon Ajansı Başkanlığı, TİKA) and Disaster and Emergency Management Presidency (Afet ve Acil Durum Yönetimi Başkanlığı, AFAD), in Africa. These agencies' activities engaging with civil and business actors supported the prestige and visibility of Turkey in the continent. For example, TİKA has projects in 150 countries. However, its presence in Africa is highly significant given its projects through 21 program coordination offices only in Africa out of total 61 such offices in the world (Tepeciklioğlu 2017).

In summary, according to İpek and Biltekin (2013), it is reasonable to expect that with the increase in the interaction of Turkey and Africa in the last years, the sovereignty bound actors will become more dependent on the sovereignty free actors. In other words, the state's role in improving relations with Africa would follow the non-state actors' economic activities in the region. On the other hand, the authors point to a concern by stating that "conflictive interactions are more likely than ever before as the results of Turkey's foreign policy in sub-Saharan Africa become more visible and open to scrutiny by the wider local and international community." (İpek and Biltekin 2013, 153).

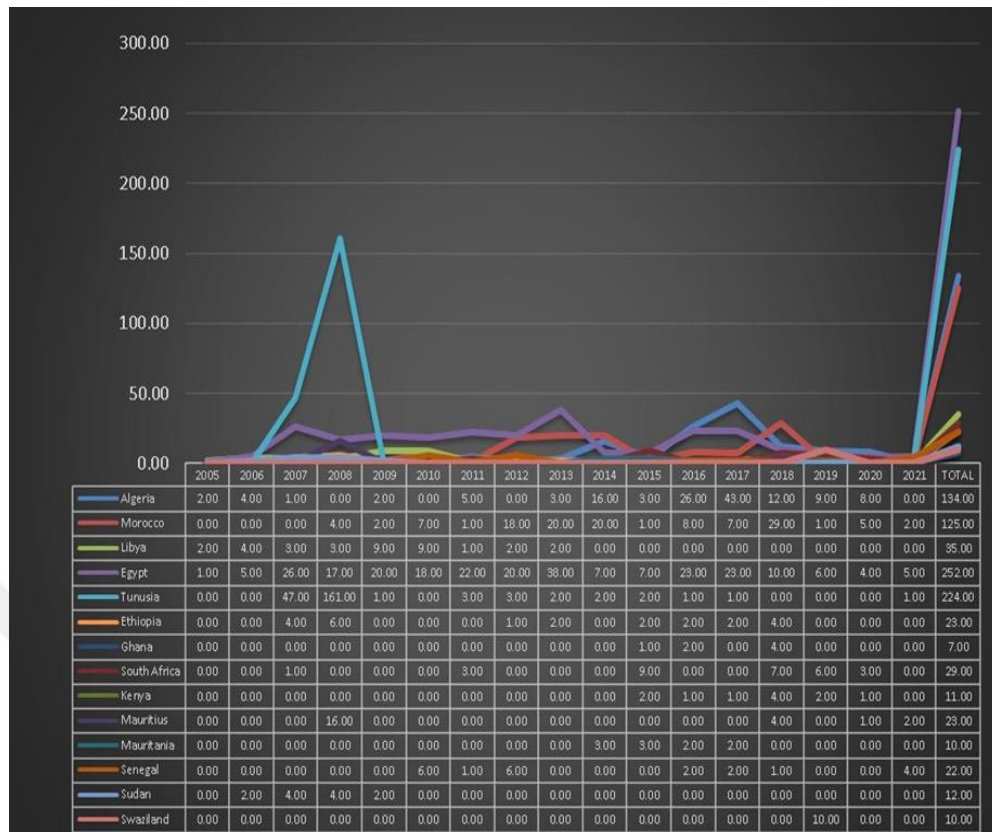
Bayram (2020) considers Turkey's rising role in Africa as Turkey's efforts to incorporate Africa and the Islamic world within the framework of south-south cooperation with the support of BRICS. The author claims that relatively increasing focus on Africa can be explained by the Islamic-oriented role of Turkey that wants to play in the global South. Thus, Turkey instrumentalizes the south-south cooperation through its increasing activities in Africa to achieve its new foreign policy goals. Emphasizing the importance of political factors such as the neo-Ottoman orientation, according to the

study of Egresi and Kara (2015, 195), this factor played a decisive role in the increase in FDI in Africa in recent years. They claim that the government has created the appropriate institutional environment for Turkish companies to facilitate and increase investments in countries that it considers strategic. At the same time, it has created a suitable climate for Turkish investments to be made in these countries by using the soft power element and public diplomacy.

On the other hand, Sıradağ (2018, 10) argues that the developing economic relations between African countries and Turkey are a product of a new security strategy. The author defines this security policy developed under the AKP government as an effort in seeking a balance between Turkey's military and non-military interests. In this sense, Turkey maintains its relations with African countries not only in the field of lower politics but also in the field of high politics. For example, Turkey opened its overseas military base in Somalia in 2017 and signed security, defence, and military agreements with more than 25 African countries can be considered as part of this new security strategy.

The second strand of literature has addressed the whether the African expansion that started in 2005, resulted from a necessity or a concern to increase alternatives in foreign policy unlike the initiatives in this field in 1970s and 1998. According to Afacan, the Africa initiative of the AKP government in 2005 was not implemented with the idea of avoiding international isolation, but to complete the multidimensional foreign policy strategy (2012, 15). However, the author's argument is not in the scope of my research question since I do not focus on foreign policy making regarding Africa. Rather, I consider foreign policy initiatives as part of the context for Turkish MNCs investments in the energy sector and particularly in Africa.

Figure 2.7. African Countries with the Most Turkish Investments-Flow (Million USD)



Source: Central Bank of the Republic of Turkey EVDS Data Central

In this section I reviewed the literature on Turkey’s growing foreign policy interests in the Africa region. In light of these studies’ arguments, I conclude that the context of Turkish outward FDI in the energy sector and particularly in Africa seems to be shaped by the Turkish state in two ways: (i) cooperative action that complements foreign policy goals and supports Turkish firms’ motivations in the region; (ii) instrumental action that prioritizes new foreign policy goals including its Islamic- oriented role or state-led capitalism it wants to pursue in the south-south cooperation.

2.4. Research Design

My research question is which factors are important in Turkish firms’ FDI in terms of major motivations of firms and implications of, if any, the policy elite’s foreign economic policy preferences on Turkey’s outward FDI? I focus on the case of Turkey and FDI in the energy sector and particularly in Africa because (i) Turkey is accounted

as the second-highest outward FDI following India between 1994 and 2002 (Erdilek, 2008), while its outward FDI increased further between 2005 and 2014; and decreased sharply afterwards (Figure 2.3.); (ii) Turkey's outward FDI in Africa continued to increase after 2015 (Figure 2.7.); and (iii) although the electricity, gas, steam, and air conditioning supply and mining and quarrying sector have fluctuated over the years, they have begun to rise especially after 2010. The share of these sectors among the entire sectors reached 12% and 22% respectively in 2020.

My population is the Turkish companies that engage in outward FDI in the energy sector. There are 11 energy firms conducting outward FDI (Table 2.7.). While determining the companies, first of all, since the energy sector is substantial in the industry, I determined the companies in the ISO 500 and ISO Second 500 Top 500 Industrial Enterprises of Turkey lists. There are 23 energy companies in the ISO 500 list and 9 energy companies in the ISO Second 500 list. Two of these companies, TPAO and Zorlu Energy, have investments abroad. I also looked at the Fortune Turkey 500, 2021 list, which documents Turkey's largest companies by their net sales. I have determined the companies that are not included in this list but invest in the energy sector abroad, from their websites.

Turkish companies have gained significant experience by their energy investments in Turkey in the last 15 years since the liberalization of the domestic electricity market in 2001 and privatization in the energy sector. For example, it has been noted that, following the enactment of the 2001 Electricity Market Law, Electricity Generation Company (Elektrik Üretim Anonim Şirketi, EÜAŞ) ranked second in the list of Turkey's 500 largest industrial enterprises (ICI). The privatization of electricity distribution networks in 2008 was followed by privatization in electricity generation in 2013. It is seen that EÜAŞ is in the 5th place in the ISO ranking of 2012, and 10 private

companies in the electricity sector are on the same list (İpek 2017, 186). While the total share of the public sector in electricity production (including existing contracts) was 64% in 2003, this ratio decreased to 21.80% in 2020. Similarly, the share of independent electricity production, which was 57% in 2003, increased to 78.20% in 2020 (EMRA Electricity Market Sector Report 2020). In short, privatization in the energy sector and consequent infrastructure investments in transmission systems, electricity, and gas distribution networks, and hydroelectric power stations (HPS) projects seem to have created market opportunities for energy companies and perhaps further experience in domestic energy sector given specific partnership between the AKP government and emerging business groups (İpek 2017, 186). In fact, in the literature review above the Turkish firms' experience in the domestic market and Turkey's energy import dependency are considered as important motivations for Turkey's outward FDI in the energy sector.

Thus, my sample consists of TPAO, Aksa Energy, Anadolu Group, Ayen Energy, Çalık Enerji, Genel Energy, Göktekin Energy, Karadeniz Holding, Pet Holding, Unit International Energy and Zorlu Enerji. I selected these companies because they are the leading companies listed either in the ISO 500 and/or Fortune lists; or these are companies, albeit not included in these lists, have considerable outward FDI in the energy sector (electricity, gas, steam and air conditioning supply and mining and quarrying) (Table 2.7.).

Countries/Companies	Aksa Energy**	Anadolu Group	Ayen Energy	Çalık Energy**	Enka Energy	Genel Energy	Göktekin Energy	HT Solar Energy	Karadeniz Holding	Pet Holding	TPAO*	Unit International Energy	Zorlu Enerji**
Europe													
Italy													
Ukraine													
East Europe													
Albania													
Bulgaria													
Croatia													
Kosovo													
Romania													
Middle East Countries													
Afghanistan													
Iraq-KRG													
Israel													
Lebanon													
Pakistan													
Palestine													
Yemen													
Central Asia-Caucasus													
Turkmenistan													
Uzbekistan													
Azerbaijan													
Georgia													
Kazakhstan													
North African Countries													
Libya													
Morocco													
Other African Countries													
Gambia													
Ghana													
Guinea Bissau													
Madagascar													
Mali													
Sudan													
Sierra Leone													
Somaliland													
Zambia													
Other Countries													
USA													
Cuba													
Indonesia													
Russia													
TRNC													

Table 2.7. Turkish Energy Firms Investing Abroad

Source: It was created by the author based on the energy companies' websites

*in ISO 500 List (2020)

**in Fortune Turkey List (2021)

Within this framework, the following companies' FDIs in energy sector across various countries are helpful for my research question to understand and explain similarities and differences in Turkish firms' FDI in terms of characteristics and major motivations and implications of, if any, the policy elite's foreign economic policy preferences on Turkey's outward FDI. Further, the following companies' range of FDI in terms of experience in investment abroad and across countries provide me a good sample to question their investment in Africa and its relation, if any, to policy elite's foreign economic policy preferences.

Within the scope of TPAO's foreign activities, it continues its production in Azerbaijan, Afghanistan, Iraq, Russia, and TRNC. In 2020, a total of 5.35 million boe oil is obtained from the Azeri Çıralı Güneşli (ACG) Project and, 2.90 billion m³ natural gas and 4.65 million boe condensate were obtained from the Shah Deniz Project in Azerbaijan. On the other hand, 2.9 million boe oil is produced annually from the Iraq Missan Project, 0.77 million boe per year from the Badra Project and 1.60 million boe from the Siba Project, and 1.53 million boe oil is produced from the Baytugan Field in Russia. When oil and natural gas are considered together, TPAO's total foreign non-hydrocarbon production was recorded as approximately 34.67 million boe (TPAO Sektör Raporu 2020, 65).

To conduct all its domestic and international activities, TPAO spent a total of \$1.39 billion in 2020, with \$598 million domestic and \$794.36 million abroad. Investments increased significantly with the purchase of shares (\$1.45 billion) in the Shah Deniz Project particularly in 2014. In 2016 and 2017, TPAO's investments decreased due to the low oil prices. The investment figure, which started to rise again in 2018 and 2019, decreased by approximately 12% in 2020 compared to 2019, and amounted to \$1.47

billion due to the Covid-19 epidemic, which adversely affected the energy sector all over the world (TPAO Sektör Raporu 2020, 67).

The global energy company Aksa Energy has operations in 7 countries operating more than 30 power plants using various energy sources such as fuel oil, natural gas, biogas coal, wind, and hydroelectricity. One of the foreign power plants of the company located in the African continent is the Ghana Fuel Oil Power Plant. The power plant has an installed capacity of 332 MW. Madagascar Fuel Oil Power Plant, which is another investment in the African continent, sells with the electricity sales tariff determined in US dollars over a capacity equivalent to 60 MW of installed power. The third investment in Africa is Mali Fuel Oil Power Plant and its total installed power has reached 60 MW. Fourthly, the installed power of Madagascar CTA-2 Fuel Oil Power Plant reached 24 MW in January. Lastly, on January 21, 2021, Aksa Energy signed a concession agreement between Aksa Energy Company Congo, its 100% subsidiary, and the Republic of Congo, for the operating rights of the natural gas power plant with an installed capacity of 50 MW in the city of Pointe-Noire in 2019 (Aksa Enerji Faaliyet Raporu 2021).

Another investment of Aksa Energy is the establishment of natural gas combined cycle power plants with a total installed capacity of 740 MW in the cities of Uzbekistan, Tashkent and Bukhara in 2020. As of January 14, 2022, commercial production of the power plants with a total installed power of 470 MW in two separate power plants in Tashkent and 270 MW in Bukhara started gradually in 2019 (Aksa Enerji Faaliyet Raporu 2021).

The Paravani HEPP investment of the Anadolu Group located in Georgia, with an installed power of 90 MW, was implemented in September 2014 to meet the energy needs of Turkey and Georgia by using the resources of neighbouring countries with an investment from Turkey. Another project in Georgia, the Ricoti Wind Power Plant project, which is planned to have an installed capacity of 20 MW, is being developed by Taba LLC (AG Anadolu Grubu Holding Faaliyet Raporu 2021).

Ayen Energy's project, which is another company that has invested abroad, is Kalivaç HEPP, located on the Vjosa River in the south of Albania. Kalivaç HEPP has an installed capacity of 111 MW, and its annual average production is 366.62 GWh (Ayen Enerji A.Ş. Website).

Since its establishment in 1998, Çalık Enerji has been operating in a wide geography encompassing the Middle East, Central Asia, Africa and the Balkans. The company has many completed projects such as MARY-3 Combined Cycle Power Plant in Turkmenistan, Aden Simple Cycle Power Plant in Yemen, and Al-Khums Simple Cycle Power Plant in Libya. In addition to these, there are also new projects. The preliminary agreement for the high voltage power transmission line project, which is considered as the most important energy high voltage transmission line project in Asia and will proceed in parallel with the Turkmenistan, Afghanistan, Pakistan, India (TAPI) Natural Gas Pipeline Project, was signed with the participation of the representatives of the countries (Çalık Enerji Annual Report 2020). The other project, the largest combined cycle power plant of Turkmenistan, Mary-3 Project, started production with the opening ceremony. The 19.5 MW Tedzani-4 Hydroelectric Power Plant Project, which is Çalık Enerji's first renewable EPC project, is the first power plant realized by Çalık Enerji and Mitsubishi Corporation cooperation in Sub-Saharan Africa. Turakurgan Combined Cycle Power Plant with a total capacity of 900 MW in the town of

Turakurgan, Navoi-2 Combined Cycle Power Plant with a capacity of 450 MW, and a combined cycle power plant with a capacity of 230 MW completed in Gardabani, Georgia, are among the ongoing projects of Çalık Enerji (Çalık Enerji Annual Report 2020).

The sixth energy company, London-based Genel Energy, also has oil and gas exploration and extraction licenses for six regions in Northern Iraq. The company currently produces oil at the Taq Taq and Tawke fields. The company, which started production in Miran and Bina Bali, also has sites in Somaliland and Morocco. Also, it has built 11 new substations from the north to the south of Iraq to expand the Iraqi transmission and distribution infrastructure to cope with expanded power generation capabilities. In the Kurdistan Region of Iraq Genel Energy also reached an agreement to obtain stakes in the Chevron operated Sarta block in January 2019 and production began in November 2020 (GE Energy Website).

On the other hand, Genel Energy bought a 40% stake in the appraisal license of the Chevron-operated Qara Dagh block in the Kurdistan Region of Iraq in January 2019 and became the operator with a transport arrangement covering the QD-2 well operation. The company which also has the exploration license for the SL-10-B and SL-13 land blocks, purchased a 50% participation stake in the Odewayne Production Sharing Agreement covering the SL-6, SL-7, and SL-10A blocks in November 2012. The company most recently signed an agreement with ONHYM in the first quarter of 2020 to extend the license duration of the Sidi Moussa Block off the coast of Morocco under a new label, Lagzira Block (GE Energy Website).

Göktekin Energy, which is among the 100 fastest growing companies in Turkey, moved its investments in the renewable energy sector abroad. The Adana-based

company, which has reached a total power of 350 MW in the solar, wind and biomass power plants it has established since the day it started its operations, is establishing a solar power plant (GES) in Italy and a wind power plant (RES) in Romania (Enerji Portalı 2022).

Today Karadeniz Holding, which has been operating abroad for the last 10 years with its global brand Karpowership produces electricity in Asia, Africa, and the Middle East with 15 energy ships with a total power of 2,800 MW. “Powerships are ship or barge mounted, fully integrated floating power plants.” (Karpowership Website). It meets the base load electricity generation of 15-80 percent of many countries such as Indonesia, Ghana, Zambia, Gambia, Guinea Bissau, Senegal, Sierra Leone and Lebanon, Mozambique, Sudan and Zambia. (KARPOWERSHIP Projects).

Ankara-based Pet Holding made all its oil investments abroad. The company has been operating in various fields in Northern Iraq since 2003. Northern Iraq was of great interest for Petoil before Iraq gained independence. Petoil entered this region in 2003 and has been operating in four different petroleum research and production blocks since then (Pet Holding Website).

Belgium based Unit International Energy on the other hand has an 840 MW natural gas conversion plant investment in Northern Iraq. There is also wind firm named Prolez Wind Energy Power Plant with an installed capacity of 9 MW in Bulgaria. Besides with the capacity of 9.7 MW, Babina Greda Biomass Power Plant is the largest biomass project in Croatia (UNIT Website).

Lastly, Zorlu Energy, another Turkish energy company which has FDIs consisting of one wind farm in Pakistan, one solar power plant in Palestine and three natural gas power plants in Israel. The company's installed power in Pakistan is 56.4 MW. The

wind power plant with an installed capacity of 56.4 MW, built by Zorlu Energy Pakistan Ltd. in the Jhimpir field in Pakistan's Sindh region, became operational in July 2013. Additionally, Bahawalpur 1 Solar Power Plant, which will have an installed capacity of 100 MW, is planned to be commissioned in Pakistan in 2023 (Zorlu Enerji 2021 Entegre Faaliyet Raporu).

The total installed power of Zorlu Energy's three natural gas power plants in Israel is 1,031 MW. In addition to these, the feasibility studies of the Solad Natural Gas Cogeneration Power Plant, which is planned as the fourth project in Israel, are in process. 2x0,999 MWp (total) installed in the Jericho region of Palestine. Dead Sea Solar Power Plant with an installed capacity of 1,998 MWp was commissioned in November 2020. This project is an investment in which Zorlu Energy has a share of 75% and Jerusalem District Electricity Company (JDECO) 25%. According to the information obtained from the 2021 annual report, project development activities will continue in the Middle East, CIS (Uzbekistan and Kazakhstan), and South Asian countries in 2022 (Zorlu Enerji 2021 Entegre Faaliyet Raporu 86-87).

I will collect data by semi-structured interviews with the company officials in my sample, the experts at the Ministry of Energy and Natural Resources, and academics, who research on Turkey's economic relations in the Africa region. I will also collect data from business specific reports related to Turkish companies outward FDI. In my interview questions (see Appendix 2), I will ultimately aim to identify major motivations of the companies outward FDI considering the factors I identified in my literature review and implications of, if any, policy elite's foreign economic policy making preferences regarding investment in Africa. The following investment motivations of firms and unique characteristics of developing countries MNCs will be questioned during my interviews:

Motivations of developing countries MNCs and the role of state in outward FDI:

- Resource exploration, market exploration, export-oriented investment, and technology are major motivations (UN 1993; Bell and Young 1998; Mirza 2000), which can be considered together with resource-based perspective for the role of state in FDI from emerging markets. State activities are mainly complementary to firms' motivations driven by efficiency and competitiveness motives (Wang et al. 2012). For example, richer natural resources in the host countries, and profitability ratios in the Turkish market are no longer satisfying (substitute to domestic market) is mentioned as trends in Turkish outward FDI in the energy sector (DEİK 2015).
- Divergent institutional pressures due to changes in the institutional environment like political, legal, and social rules in addition to strategic goals and efforts for economic optimization may lead firms' internationalization (Oliver 1997). For example, in the Energy Workshop held by DEİK in 2015, it is argued that establishing a public and private sector platform that could act in a planned and organized manner would be crucial to encourage investment in Africa and other new potential countries. Studies also revealed that the steps taken towards liberalization in Turkey, some programs such as Turkquality and some reforms such as tax exemption are factors that FDIs. It is also argued that the AKP government's goals of establishing new connections with African countries is part of coordination activities in creating new export markets, and thus meeting the needs of small and medium-sized enterprises in Anatolia (İpek and Gültekin 2013). Further, complementary interaction can also arise from Turkish companies outward FDI in the energy sector. Relations between the government and special interest

groups can provide an opportunity to ignite independent commercial relations in Africa (İpek and Gültekin 2013).

Unique characteristics of developing countries MNCs:

- Compared to developed countries, Turkish companies' familiarity with the demands and capabilities of the countries they invest in, and some negative factors such as economic and political instability that Turkish firms have been experiencing can be a unique feature of Turkish outward FDI in south-south investments. In other words, Turkish companies can have more experience and be better in managing economic and political risks.
- Turkish companies can have managerial ability to adapt to existing process and product technologies; and changing them to work at smaller scales to produce at low cost in host countries (Tolentino 1993).
- Turkish companies may select more appropriate production processes and to source available inputs locally given the smaller technological gap between developing countries' MNCs and domestic firms (Aykut and Goldstein 2006).



CHAPTER III

TURKISH ENERGY COMPANIES' MOTIVATIONS AND THE ROLE OF STATE IN OUTWARD FDI IN THE ENERGY SECTOR

The previous chapter presented different characteristics of developed and developing country firms in their internationalization and highlighted the increase in the activities of Turkish energy companies in the observed new markets. In this chapter, I analyse my research findings obtained from semi-structured interviews within the framework of the studies that determine the outward FDI motivations of developing country companies in general and Turkish companies in the energy sector in, which are summarized in theoretical background in Chapter 2 (see 2.4. Research Design). Then, I discuss the similar or distinct aspects of Turkish energy companies' motivations according to the factors determined in the studies about emerging markets' or developing countries' firms.

I argue that although the Turkish firms' motivations for internationalization in border countries and the Africa region have similarities with the motivations and unique characteristics of developing countries' MNCs identified in the literature, a single theory is not sufficient to explain the motivations of Turkish MNCs in energy sector. Moreover, the role of the state in the investment decisions of these firms should be considered in theories that focuses mostly on market driven factors and/or firm level characteristics.

I seek an answer for the question of whether and how Turkish MNCs differ from the other emerging countries' MNCs and implications of, if any, policy elite's foreign economic policy making preferences regarding investment in the Africa region. Even though European countries still lead for the highest share of Turkish MNCs outward FDI among all other regions (Table 2.5), Turkey's outward FDI has expanded in parallel to its increasing trade volume, especially in border countries and the African continent in the last 10 years. To address this question, data is collected through semi-structured interviews with senior executives at the international investment departments of energy companies, political elites in government agencies and scholars researching on economic relations between Turkey and African countries.

The answers of the interviewees are evaluated and interpreted to assess the main motivations which are revealed through common answers by all firms, researchers, and policy makers. Accordingly, the following motivations are identified: market seeking, ensuring energy security, rapid institutional change in Turkey, some distinctive organizational capabilities of Turkish firms, cultural ties with neighbouring geographies and lastly, government support for encouraging outward FDI by Turkish firms.

3.1. Market Seeking Motivations of Turkish Energy Firms

In the extant literature, one of the primary motivations for developing countries' outward FDIs is market seeking (Buckley 2007, Taylor 2002, Aybar 2016). Companies in search of markets reduce their access costs to foreign markets and overcome distance barriers with FDI. According to the results of the primary data obtained through in-depth interviews with 299 Turkish companies in different sectors, 77% of the respondent firms mentioned that the main motivation behind Turkish MNCs' outward FDI is the desire to reach larger markets (Kılıçaslan 2019). According to another

survey conducted among DEİK member companies in 2021, the participants listed the criteria they consider when investing in foreign countries. The findings of this research revealed that the market size is the first criterion for Turkish investors. The market size was also the first criterion in the previous three surveys' results (DEİK Outbound Investment Index 2021). In line with this research in my interview, Firm #1³ asserts that

[f]oreign countries are always a larger market than the domestic market, and it is more rational for companies desiring to grow and develop to go abroad. In addition, with new investments in Turkey, there is not as much demand gap in terms of energy as before. Therefore, since the number of countries with energy needs in developing countries is high, it is invariably more attractive for Turkish energy firms to invest abroad.

In parallel, Researcher #2⁴ claims that

[t]he most crucial motivation for Turkish companies to make FDIs in various countries can be counted as the search for new markets in parallel with the understanding of the importance of geographical diversity and product diversity, the desire to evaluate existing idle funds in enterprises, the incentive measures applied, and the realization of power in sectors where our comparative competitive power is superior.

In addition to Firm #1 and Researcher #2, all other firms interviewed stated that the primary motivation for their investments is to take advantage of overseas market opportunities. Consistent with Bakır's (2016, 56) findings, Turkish MNCs are making their greenfield investments mainly in countries with similar economic development

³ Firm #1, a senior manager interviewed on April 14, 2022, videoconference.

⁴ Researcher #4, interviewed on May 07, 2022, videoconference.

levels as that of Turkey or countries less developed than Turkey. The survey findings of Bakır's study (2015) show that Turkish MNCs in target countries use their relative competitive advantages in areas such as cost management, technical knowledge, marketing, logistics, and technology to access new markets or increase their existing market shares in developing countries with high-profit margins (Bakır 2016, 56). Also, some of these companies seeking to develop their operational fields, stated that their priority targets are close geographies.

According to the internationalization theory, there is a direct symmetrical relationship between FDI and distance. In line with this hypothesis, the data from interviews reveal that the priority of Turkish MNCs in energy sector is close geographies, as logistics costs are a consequential variable affecting the investment decision. The researchers, who are experts in the field of energy highlighted during the interviews:^{5,6}

Region selection is very critical for FDI. Turkish businesspeople especially begin from close geographies since in these countries Turkey is strong diplomatically, investing in countries with which Turkey has good relations is always an advantage for Turkish companies.

Hence, in Chapter 2 literature review, the argument that the most detrimental motivation for investment motivations of Turkish companies is market research/diversification is also supported by my findings based on interview answers. However, the interview answers revealed also other motivations that are explained in the next sections.

⁵ Administrative Official, interviewed on April 20, 2022, Republic of Turkey Ministry of Energy and Natural Resources, in Ankara.

⁶ Researcher #2, interviewed on April 15, 2022, videoconference.

3.2. Ensuring Energy Security

Another key driver triggering the motivation to reach new markets is the necessity for countries to boost their supply diversity. Market diversification is a critical issue particularly for resource-dependent countries. Firms in these countries aim to reduce dependency on existing organizations by diversifying their operations (Xia, Jun, et al. 2014). Moreover, companies having investments in economically and politically risky countries sought to lessen their dependence on these countries (Erdilek 2008, 752). The first of the seven objectives in the 2019-2023 Strategic Plan prepared by the Turkish Ministry of Energy and Natural Resources is to ensure sustainable energy supply security (ETKP 2019-2023 Stratejik Planı). According to Firm #3⁷:

The immediate priorities are the economy and energy security. For example, energy security emerged as a primary concern after Russia's risk of cutting off gas after the aircraft crisis. Ensuring energy security is a source of motivation for our company, not only with domestic investments but also with the financial resources obtained from foreign investments by using market opportunities and other advantages in other countries.

In addition to the consumption costs that arise with the increasing energy demand, the fact that these resources are under the control of a limited number of countries and the possible problems that may occur in these countries put the security of energy supply at risk (Çetinkaya 2019, 212). One of the interviewees among firms' managers emphasized:⁸

⁷ Firm #3, a senior manager interviewed on April 21, 2022, in Ankara.

⁸ Firm #3, a senior manager interviewed on April 21, 2022, in Ankara.

While the main initial motivation is profitability, portfolio diversification is also a source of motivation. For example, it has been seen how necessary the portfolio diversification is after the Ukraine Crisis. Therefore, it is necessary to provide portfolio diversity to ensure energy security.

Similarly, according to the information given by another firm manager⁹:

The most important thing is to distribute the risk, not to be tied to a single country. Making investments in different countries and balancing the problems that may arise in these countries with the income to be obtained from other countries is one of our main sources of motivation.

As emphasized in Chapter 2, energy security became central in guiding Turkey's foreign policy and thus on the increase in relations with Asian, Middle Eastern, and African countries. New dimensions including political, economic, social, and energy security have been added the Turkey's new foreign and security policy especially after the AK Party Government. A part of this new security identity is the social, economic, political, and military cooperation developed with African countries (Siradağ 2018, 11). In the construction of this new security strategy, actors such as business and academia, government institutions and NGOs have a significant role (Siradağ 2018, 12.).

Researcher #4¹⁰ indicated that

[a]ctivities such as state-building and reestablishment initiatives in countries in Somalia and Libya, assisting local people and development programs have made Turkey stronger in the region. An environment has been created in which local people respect Turkey, especially in Somalia. While Turkey's foreign policy and

⁹ Firm #4, a senior manager interviewed on April 27, 2022, videoconference.

¹⁰ Researcher #4, interviewed on May 07, 2022, videoconference.

primary interest in Africa is economic, its other interest is "the search for geopolitical influence". On the other hand, as a result of Turkey's foreign policy, significant progress has been made in the political, economic, and socio-cultural relations between us and the Balkan countries in recent years. Relations with the countries of the region through bilateral agreements and mutual visits have become more frequent at all levels in almost every field, including visa exemption, free trade agreements, raised investment from Turkey to the region, mutual trade, and diversified social and cultural relations. Turkey carried out its Balkans policy in this period from a political and economic perspective.

Thus, another motivation regarding Turkish firms' outward FDI in the energy sector is that in countries with energy dependence, like Turkey, energy supply diversity emerges as a critical priority for these countries, and this situation have a potential to shape the investment plans of energy companies. In the next section, in addition to firm-level motivations shaping Turkey's outward FDI in energy sector, political context of investment is questioned through how the institutional structure in the host countries can encourage firms' foreign market orientation.

3.3. Distorted Institutional Structure

The rapid change in the corporate environment is identified as another factor in the literature. This is because firms adapt more slowly in countries with rapid institutional change rates, increasing the mismatch between firms' needs and the institutional context (Cuervo-Cazurra and Genc 2008; Witt and Lewin 2007, 581). In a parallel stream of research, since the transaction costs are more downward in an institutional environment where the rules of the game are clear and the uncertainties arising during the

operation of the market are less, the adaptation costs are lower for the investing companies (Daude, Christian and Stein 2007).

Firm#2¹¹ states this problem as follows:

If I put aside the developments that have taken place in the last 1.5 years in Turkey, unfortunately, the market has not operated according to the market rules for the last ten years. The short-term thinking of decision-makers and their orientation towards decisions that are not 100% in line with the spirit of the regulation and focused on solving the immediate problem at that time cause uncertainty. For this reason, most foreign companies in Turkey, most companies investing in energy did not find what they expected. This caused companies to leave Turkey almost entirely. This situation is also one of the important reasons playing a role in our decision to expand abroad.

Although Turkey's business environment has made significant progress with higher real economic growth since 2003, Erdilek (2008) has evaluated the business conditions of Turkey as unstable and challenging. He stated that the high cost of exit for unsuccessful enterprises is a driving factor for Turkish companies' outward FDI. Factors such as inadequate laws, jurisdictions, and an unpredictable political climate set limits on companies' pursuit of production. Therefore, they tend to escape from the stifling bureaucratic climate through internationalization (Buitrago and Camargo 2020, 2). According to researcher#1¹²:

There is uncertainty about the future of the market in Turkey. Firms cannot be expected to invest in an environment where uncertainty is very intense.

¹¹ Firm #2, a senior manager interviewed on April 15, 2022, videoconference.

¹² Researcher #1, interviewed on April 14, 2022, videoconference.

Therefore, those who have the power instead of investing in Turkey, will receive their income in foreign currency when they invest abroad, thus creating a permanent environment for their growth. Most of our neighbours in the west are EU members, so they all depend on EU legislation and these regulations are standard, so the rules of the game are clear. Since the rules of the game are clear, it is more attractive for companies to invest there.

According to some academics, another encouraging factor in the tendency of companies to internationalize is to avoid preferential treatment provided by the governments of developing countries (Luo and Tung 2007). For instance, Firm #5¹³ states that “we are having difficulty finding a place to invest our earnings in Turkey. We need a license for oil extraction, it's easier abroad. Bureaucratic processes work better in foreign countries. Therefore, we have such motivation.”.

Thus, according to my findings, in addition to firm level motivations, political context is critical. Indeed, the interviewees’ answers above suggest that Turkish energy companies’ outward FDI in recent years have been shaped by the motivation of companies to increase their competitive advantage abroad as a result of negative conditions at home and positive developments abroad.

3.4. Organizational Capabilities of Firms

The literature review in Chapter 2 also showed that compared to the companies of developed countries, developing companies have some disadvantages arising from the institutional structure of the home country and the company-specific drawbacks such as technological infrastructure (Ramamurti 2012). It needs to be noted, however, that firms in developing countries have also some advantages that developed countries do

¹³ Firm #5, a senior manager interviewed on May 07, 2022, in Ankara.

not have. One of these advantages is the ability of these firms to manage difficulties stemming from unfavourable investment or economic environment in their home country. In this way, investors from developing countries may become one of the leading investors in countries where they may face similar difficulties (Anil, Tatoglu and Özkasap 2014, 414).

Economic and political crises and uncertainties are common in African countries. However, the experience of operating in crisis environments is an interesting example of organizational capabilities of firms because a crisis environment, which is a Turkey-specific disadvantage, has been turning into a company-specific advantage in this region (Bakır 2016, 64). According to the interview data, many interviewees admitted that developments such as economic and political instability in Turkey provide advantages for Turkish companies in investing in developing countries. For example, Firm #3¹⁴ states that “due to the political and economic environment in Turkey, Turkish companies have gained a great deal of experience in analysing risks and making more flexible and faster decisions compared to foreigners.”

Numerous developing companies have the chance to turn their disadvantages into advantages if they invest in another developing country. As they have experienced a similar institutional environment in their own countries, they know better how to manoeuvre in a situation such as an imperfect contract environment, or a less developed market environment (Cuervo-Cazurra and Genc 2008). For example, they know the norms regarding corruption (Cuervo-Cazurra 2006). They also have better-adapted distribution networks and production facilities for these countries. This is because the technological and firm-specific resources of developed countries, which require a

¹⁴ Firm #2, a senior manager interviewed on April 15, 2022, videoconference.

more stable contracting environment and a more developed market presence, will be hampered by inefficient markets (Cuervo-Cazurra and Genc 2008). A researcher shared his thoughts in line with this argument¹⁵:

Economic and political instability and other negative factors frequently encountered in developing countries such as Turkey directly affect investment decisions and enable businesspeople to gain new experiences in minimizing the effects of these negative effects. From this point of view, it can be said that Turkish businesspeople are quite experienced and have reached the maturity to show the prudence to take precautions against possible negativities. Considering that the conditions of developing countries are not that different from each other, it can be expected that Turkish companies will be quite effective in managing crises and negativities with their domestic experience in this direction.

According to Tang's inverted U-shaped finding, firms aiming to escape institutional constraints may prefer firms with medium-level institutions to perform FDI rather than countries with developed institutions. In this way, they can both stay away from local restrictions and invest on a larger scale in these developing countries (Tang 2021, 13). The behaviour of these firms has been termed by Luo et al. (2010) "institutional escapism". One of the companies' executives¹⁶ interviewed explains how Turkish companies, which escaped from the disadvantageous position of Turkey due to the implementation of the legislation, have become successful with the knowledge and experience they have in the countries they invest:

¹⁵ Researcher #4, interviewed on May 07, 2022, videoconference.

¹⁶ Firm #2, a senior manager interviewed on April 15, 2022, videoconference.

We have a very good market structure and Turkey is far ahead in terms of knowledge and experience when we compare it with the countries in which we invest in energy. Therefore, we transfer this experience to the markets we invest. Unfortunately, the problem in Turkey is in practice. The implementation part is due to the short-term thinking of the decision-makers, their orientation towards short-term decisions that are not 100% in line with the spirit of the regulation and focused on solving the immediate problem at that time. At the end, this causes uncertainty.

According to the argument called the “springboard” by Luo and Tung (2007), firms in developing countries see international expansion to lessen the financial and institutional constraints of host countries. Therefore, by using various aggressive and risk-taking methods, they turn the disadvantages they have in the market into advantages. According to some energy companies and some researchers interviewed, Turkish companies are risk-takers. To illustrate, Firm 1#¹⁷ highlights that “as an energy company with many investments abroad, we know the geographies of developing countries better than some foreign companies, and we have an aggressive and more risk-taking way of doing business.”.

Thus, in a country with institutional flaws, companies can create a motivation for internationalization due to the negativities they have to deal with domestically. On the other hand, this experience, which is considered as part of organizational capabilities of firms, can become an advantage for companies’ outward FDI in other countries.

3.5. Cultural Proximity among Countries

¹⁷ Firm #1, a senior manager interviewed on April 14, 2022, videoconference.

The culture factor is another motivation that is identified in the literature for developing country firms' preferences for determining the countries in which they will invest. Uppsala theory argues that multinational enterprises tend to invest primarily in countries that they feel closer to and know better in terms of language, culture, political system, education level, degree of industrialization during the internationalization process (Ulaş 2009, 33).

Besides, for both corporate theory and the OLI paradigm, cultural proximity/cultural distance is a key variable used to understand the market entry mode of MNCs (Buckley et al. 2008, Demirbag, Tatoglu and Glaister 2009, 450). As the cultural similarities between the two countries decrease, the speed of reaching the necessary information for the process before and after the investment plan declines (Sausa and Bradley 2006). According to Lankhuizen et al. (2011), FDI is sensitive to soft obstacles. Therefore, it is more likely to make trade rather than a direct investment in culturally dissimilar geographies. Parallel to these arguments, according to one respondent¹⁸:

The most significant spiritual bridge between us and these countries with which we cooperate with history, culture, and civilization, is undoubtedly the unity of common belief and climate. This spiritual climate constitutes our leading bond, our shared values. Economic, social, and commercial relations emerge as a natural result of this unity of belief. However, despite this historical and "shared climate" mutual economic, social, political, and cultural relations are not at the desired point.

¹⁸ Researcher #4, interviewed on May 07, 2022, videoconference.

It is seen that Turkish MNCs benefit from comparative advantages specific to Turkey, such as geographical and cultural proximity, in addition to their competitive advantages in areas such as cost management, marketing, logistics, and technology. (Bakır 2016, 188). Based on this, Bakır argues that (68, 2016) Turkish MNC activities are regional rather than global. The main reasons for this are geographical, historical, cultural, and institutional proximity. Linguistic distance is another variable that complements the cultural distance and has an impact on the selection of the operating regions of the companies of developing countries that will make direct investments (Demirbag, Tatoglu and Glaister 2009, 450). In the initial phase of international expansion, companies tend to make it their priority to stay in the same language cluster geographically. This is also significant for understanding the FDI and facilitating operations by influencing the risk perceptions of managers. Firm #8¹⁹ states that “since they have a common culture and common history with most of the Middle East or African countries -thanks to human relations- Turkish companies can adapt more quickly to the country they invest in.” Besides using the advantage of this common culture climate, with the creation of a suitable institutional environment in nearby geographies by the Turkish government and the use of public diplomacy and soft power elements, economic interactions have occurred between these countries and Turkey, and FDIs have augmented in parallel with these developments.

3.6. The Role of State

Apart from the motivations at the firm level mentioned above, one factor regarding political context for outward FDI from developing countries is the home government or the role of state. Many developing countries are making efforts to internationalize

¹⁹ Firm #4, a senior manager interviewed on April 27, 2022, videoconference.

their local companies for closer integration with the international economy (Luo, Xue and Han 2010). According to political economy of FDI, which places more emphasis on the role of states, governments are "the controllers, regulators and judges of the business sectors." However, on the other hand, according to some researchers, businesses also shape government policies (Luo, Xue and Han 2010, 69). One of the bureaucrats²⁰ in the interview specified that

[f]oreign policy can directly affect firms' investments. For example, the projects planned to be realized may not be eventuated due to the developments in foreign policy, or the projects that would be very difficult, may operate more easily thanks to the political developments. TANAP normally passes through six countries, so it is not an easy project, but since Turkey-Azerbaijan relations are very strong, the project was completed ahead of time, so foreign policy had a positive impact on this project.

Turkey's growing diplomatic relations with border countries has also been influential in strengthening economic cooperation. It is remarkable that more businessmen than government officers participate in the Turkish delegations' visits to border countries (Egresi and Kara 2015, 192). Indeed, according to Firm #3²¹:

There is a one-to-one parallelism between relations between countries and mutual trade and investment. Our ambassadors are obliged to follow and support both our commercial steps and opportunities while following the relations between the two states. We receive support from the Ministry of Foreign Affairs, the Ministry of Energy, and embassies in every country we visit.

²⁰Administrative Official, interviewed on April 20, 2022, Republic of Turkey Ministry of Energy and Natural Resources, in Ankara.

²¹ Firm #2, a senior manager interviewed on April 15, 2022, videoconference.

And²²:

Africa is an energy-poor country, it needs energy, it is a difficult country, and it consists of countries that are underdeveloped compared to other countries in terms of national income. Therefore, the presence of the Turkish government and institutions there created a sympathy in those countries, and these investments supported the relations between the two countries for better relations.

As supported by the data in Chapter 2 literature review section, Turkey's augmenting commercial relations with the Near and Middle East, and Africa regions in recent years have been accompanied by FDIs. The Turkish government has made some efforts to support this trade and investments, for example, through trade and visa agreements, it has paved the way for investors to turn to new markets. According to Researcher #2²³:

The most prominent point for Turkish companies to invest abroad is their political power, and their ability to communicate with the political forces of that country. Because developing countries, especially African countries, are risky countries in terms of investment, that's why planned investments in these countries can be operationalized by activating political leverage. For example, international agreements are used to support investments to enable an umbrella of guarantee for companies.

As many participants have confirmed in the interviews, Turkish foreign policy is important for FDIs, especially in African countries, through multilateral diplomacy in recent years. Public diplomacy can be from the state to the people or from the people

²². Firm #2, a senior manager interviewed on April 15, 2022, videoconference.

²³ Researcher #2, interviewed on April 15, 2022, videoconference.

to the people. While diplomacy providing the link between the state and the people is carried out mostly through official channels, the diplomacy activities between the public and public carried out through schools, media, research centres and NGOs have made the Turkish presence in the region more visible (Egresi and Kara 2015, 194). For example, “legitimizing political and economic practices, TIKa's expansion into the Middle East and Africa can be considered a function of ideas, shifting the focus to Turkey's soft power activities, and reinterpreting material constraints in foreign policy.” (Ipek 2015, 188). In line with this argument, according to interview done by Ipek (2015, 188), senior director at TIKa underlines that

Turkish businessmen follow TIKa in the Africa region. When TIKa opens up an office in one African country, Turkish Airlines starts flights to these destinations, which increases the interest of businessmen and simplifies their operations. For example, in Ethiopia and Somalia you can observe such a pattern.

Similarly, in my interview with Researcher #1²⁴ states that

Turkey's relations with Africa have progressed through soft power elements. TIKa conveying Turkey's official development assistance has been substantial in African foreign policy for many years. However, apart from that, NGOs, Turkish Airlines, Diyanet and various other organizations like Yunus Emre Institute and Maarif Foundation generally act in coordination with each other in the implementation of the African initiative. It is no wonder that these aid activities played a role in facilitating the activities of businesspeople in the continent.

²⁴ Resercher #1, interviewed on April 14, 2022, videoconference.

The arguments of interviewees complete the circle by pointing to the fact that the resource-based and institutional perspectives, explained in Chapter 2, alone lack explanatory power to assess the role of government in FDI outflows from emerging markets. While economic optimization factors evaluations play a critical role in determining the motivations in the internationalization of companies, it is necessary to take into account that these decisions can be shaped by the institutional environment such as political, legal, and social rules (Oliver 1997). For this reason, it would be useful to evaluate the internationalization of firms in these countries by taking resource-based and institutional perspectives together.

Contrary to the findings in Bakır's study (2016, 62), the interviews conducted within the scope of this thesis did not reveal a common motivation like utilizing the cost advantages in energy investments made in Africa. According to Bakır's data (2015) the primary motivation for Turkish companies' FDI in African countries, where human, physical, and institutional infrastructure is weak, and there is very limited economic development and welfare, is to realize the production by utilizing the cost advantages, which is important in accessing the developed countries' markets through low cost produced exports. However, many of the respondents in the interviews for this thesis stated that investing in the African continent is economically risky and for high-cost investments like energy in these geographies, "utilizing low-cost advantages" cannot be considered as a first option. For example, one of the respondents²⁵ argues: "Starting with the energy sector as an investment in risky geographies such as the African region leads to great financial losses."

²⁵ Firm #3, a senior manager interviewed on April 21, 2022, in Ankara.

In summary, the data collected through semi-structured interviews revealed major factors that seem to shape Turkish MNCs outward FDI in energy sector. The motivations of Turkish firms have shown similarities with the those identified in the literature, namely the need to expand the markets where investments are made, the desire to guarantee energy security, Turkey's institutional environment which is unsuitable for investment and the advantages provided by this institutional environment, cultural similarities. Moreover, the political context for outward FDI matters. The findings suggest that the encouraging role of the government in investments have created strategic opportunities for Turkish energy companies in the new markets such as, the Africa region. As highlighted in Chapter 2, the economic relations between Africa and Turkey are driven by the cooperation between the Turkish Government and the business community. Nevertheless, in light of my findings from the semi-structured interviews and those in the literature, it is seen that an eclectic approach, which uses different theories together, is needed to determine the motivations of Turkish energy companies.



CHAPTER IV

CONCLUSION

This thesis attempts to understand Turkish firms' FDI major motivations and implications of, if any, the policy elite's foreign economic policy preferences on Turkey's outward FDI.

The findings based on semi-structured interviews presented in Chapter 3 suggest that the resource-based and institutional perspectives, explained in Chapter 2, alone lack explanatory power to assess the role of government in outward FDI from emerging markets. While economic optimization or market driven firm specific strategic behaviour play a role in determining the motivations in the internationalization of companies from developing countries, in the literature, the institutional environment such as political, legal, and social rules is also discussed theoretically (Oliver 1997). My case study on Turkey complements the studies that emphasizes the importance of political context or institutional environment. Thus, I argue that it would be useful to evaluate the internationalization of firms in developing countries by taking resource-based and institutional perspectives together.

My research contributes to an understudied aspect of Turkey's outward FDI expansion in the new markets, especially in the African countries, in the supply of electricity, gas, steam and air conditioning, and mining and quarrying sectors. My findings regarding the case of Turkey's outward FDI in energy sector confirm the major motivation identified in the literature which is that orientation of Turkish energy companies to Africa is to reach new markets that require less competition. Further, my findings reveal another important factor that is not considered in resource-based perspective in

the literature. The government's policies encouraging and facilitating investments have been critical in shaping Turkish energy companies outward FDI in the Africa region. Other factors summarized below also contributed to the Turkish energy companies' decision about outward FDI and in which countries.

First of all, the literature on Turkey's outward FDI highlights a common factor as a major motivation, which is access to new markets or market diversification. For instance, as emphasized in the Chapter 2, richer natural resources in the host countries, and profitability ratios in the Turkish market are no longer pleasing (substitute to domestic market) is noted as tendencies in Turkish outward FDI in the energy sector (DEİK 2015). According to data collected through face-to-face interviews, especially border regions and Africa have been attractive regions for companies' FDI preferences. Due to the increasing energy needs of African countries, the market potential has been shaping Turkish companies' outward FDI decision.

For energy-poor countries, reaching new markets and increasing profitability is not enough to determine the motivation of companies to expand abroad. As a country that supplies most of its energy needs from abroad, reducing its dependence on the countries with which it trades is also a source of motivation for energy companies.

Thus, the risk is distributed by balancing the investments made in some countries with other more secure countries politically and economically. The changing foreign policy and versatile vision of Turkey, especially after the AK Party government, has made energy security one of the cornerstones of the new security understanding. According to this understanding of security, it is essential to develop relations with nearby geographies with similar histories and cultures. The increasing interaction with

African countries in the economic, political, and social fields is part of this renewed understanding of security.

The widening gap between companies' expectations and the existing practice in the domestic institutional environment is also another motivation that leads Turkish energy firms' outward FDI. In other words, the lack of stability and consistency in business conditions in Turkey has become one of the motivations for Turkey's FDI expansion since 2010s.

Investors develop their management skills by learning and experiencing the institutional environment of the countries they live (Eriksson et al. 2015). Developing country firms experience mostly weak governance that may provide some business gains, such as being able to manoeuvre more easily in investments made in other developing countries. Therefore, investing in these countries may become more attractive to developing country firms compared to developed country firms (Cuervo-Cazurra 2006). "For example, Turkish firms have experienced several episodes of high political instability in the past. As a result, they have internationalized into countries in the Middle East and in the former Soviet Union with high success, partly because of their ability to manage in such difficult conditions." (Cuervo-Cazurra and Genc 2008, 964). When the literature and interview data are analysed together, it can be said that through such experience Turkish energy companies have improved their risk-taking skills and become more willing to invest in these countries compared to developed countries, especially in the Africa region.

As emphasized in Chapter 2 and 3, it is one of the debates in the literature that the cultural similarity between a foreign environment and home country of the MNC allows for reducing uncertainty by increasing the ability of companies to collect, ana-

lyse and interpret information accurately. As seen in the interviews with energy companies, cultural unity played a role in the development of commercial and investment activities in Turkey's observed new markets. Especially in Africa, Turkish foreign policy elites have emphasized the similarities between Turkey and this continent, with the emphasis on common history that have laid the groundwork for Turkish firms' investment in these countries.

Although economic factors and market potential continue to be key motivations for investors, the government's activities still have been influential in investment decisions. The outward FDI process and behaviour of MNCs from developing countries is, by its nature, shaped by institutions and their changes in the home country. Thus, their outward FDI motivations may not always be as much a result of economic rationality as traditional MNCs in advanced economies. Rather, they reflect corporate strategies in economic and political context. Therefore, internationalization theory may not provide an adequate explanation for understanding FDI from emerging markets and developing countries (Park and Xiao 2017).

There are different policies implemented by the government in order to encourage and/or facilitate the FDIs of firms: low-interest rate, government-guaranteed loans and subsidies, tax breaks, and support from various government agencies at the national and local levels (Egresi and Kara 2015, 185). The Turkish government's influence on FDI in the specified regions was occurred in two ways. First of all, a suitable institutional environment was created in the region that encourages investors to invest. Secondly, with the use of public diplomacy and soft power elements, the recognition of Turkish firms in new markets has increased and created convincing environment for investments (Egresi and Kara 2015).

An argument that differs from the literature and is reached through the findings based on interviews is that in some studies (Bakır 2016, 62) the cost advantages such as cheap labor and cheap rent in the African continent have been evaluated as the driving factors that shapes these companies' FDI in Africa. However, in the interviews conducted within the scope of the thesis, cost advantages are not considered as a major motivation for Turkish MNCs' FDI in the energy sector in this region.

Summing up my analysis, in this thesis, where I focused on the case of Turkey and FDI in the energy sector and especially in Africa, my findings revealed that the motivations specific to the companies are market diversification, ensuring energy security, the institutional environment in Turkey, capabilities specific to Turkish companies and cultural affinity. However, in addition to these motivations, my findings through interview data demonstrate that the reason behind the Turkish energy companies' orientation to Africa is to reach new markets that require less competition and have investment potential through the Turkish government's public diplomacy activities and soft power policies that encourage and facilitate investments. As a result, it is not possible to explain the motivations of companies investing abroad with one of the theoretical frameworks in the literature. Rather, multiple factors can be determinative with different degrees of significance on the companies' outward FDI decision and selection of countries to invest in. Thus, I conclude that an "eclectic" model in which multiple factors examined within economic and political contexts will be more explanatory.



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APPENDIX A

No	Interviewees	Dates	Places
1	Firm #1	14.04.2022	Videoconference
2	Firm #2	15.04.2022	Videoconference
3	Firm #3	21.04.2022	Ankara, Turkey
4	Firm #4	27.04.2022	Videoconference
5	Firm #5	09.05.2022	Ankara, Turkey
6	Administrative Official #1	20.04.2022	Republic of Turkey Ministry of Energy and Natural Resources, Ankara, Turkey
7	Researcher #1	14.04.2022	Videoconference
8	Researcher #2	15.04.2022	Videoconference
9	Researcher #3	21.04.2022	Videoconference
10	Researcher #4	07.05.2022	Videoconference





APPENDIX B

Interview Questions

Interview Questions for the Firms

1. In which countries does your company make foreign direct investment (FDI) in the energy sector? (Is there any FDI planned for another country other than the information stated on your website?)
2. What kind of investments does your company operate in the energy sector?
3. In general, what do you think is the most important motivation for energy companies in Turkey to carry out FDI abroad and what are the other important factors?
4. What are your company's most important investment motivation(s)?
5. Apart from your company's most important investment motivation, what other company characteristics such as resources specific to your company, talent, experience, organizational processes are critical in the FDI decision?
6. Compared to companies from developed countries, do you think Turkish companies' familiarity with the demands of the countries they invest in and the conditions of that country or their ability to adapt more easily in the Middle East and African markets is important in the decision of FDI?
7. Do the developments in the Turkish domestic energy market have an impact on your company's FDI decisions? For example, if the competition in the domestic market is increasing, can we say that energy companies consider FDI?
8. Are some negative factors such as economic and political instability experienced by Turkish firms in Turkey influential in managing the difficulties, they face in FDI to developing countries?

9. To what extent does Turkey's economic or political relationship with countries in neighbouring geographies have an impact on the determination countries for FDI?
10. Do institutional similarities or differences in neighbouring countries and Turkey have an impact on FDI in the energy sector? If so, how is it?
11. How do you think Turkey's foreign policy during the AKP government affected Turkey's FDI?
12. How did the foreign policy of the AKP government affect FDI in the energy sector?
13. In what extent do you think that TDP has affected the FDI in the energy sector, especially to African countries, compared to other regions?

Interview Questions for the Government Officials and Researchers

1. In general, what do you think is the most important motivation for Turkish companies to make foreign direct investment (FDI) abroad and what are the other important factors?
2. Compared to companies from developed countries, do you think Turkish companies' familiarity with the demands and the conditions of the countries, they invest in, or Turkish companies' ability to adapt more easily in the Middle East and African markets is important for the decision of FDI?
3. Do the developments in the Turkish domestic energy market have an effect on the FDI decisions of Turkish companies? For example, if the competition in the domestic market is increasing, can we say that firms consider FDI?
4. Are some negative factors such as, economic and political instability experienced by Turkish firms in Turkey important in managing the difficulties in the developing country, where FDI is made?
5. To what extent does Turkey's economic or political relationship with countries in neighbouring geographies have an impact on Turkish firms' outward FDI destination?
6. Do institutional similarities or differences in neighbouring countries and Turkey have an impact on FDI? If so, how is it?
7. To what extent do you think that Turkey's foreign policy during the AKP government affected Turkey's FDI?
8. Considering that Turkish Foreign Policy acts with the aim of becoming a regional power especially in the Balkans, the Middle East and North Africa, has it had an impact on the FDI of companies in these regions? How?

9. In what extent do you think that Turkey's foreign policy has affected the FDI in the energy sector, especially to African countries, compared to other regions?

