

Location of Foreign Logistics Firms in Istanbul

Lale Berköz

Department of Urban and Regional Planning,
Istanbul Technical University (ITU),
TURKEY.

lberkoz@itu.edu.tr

ABSTRACT

The effects of the social and spatial changes caused by globalization experienced worldwide are also seen in the Istanbul metropolitan area. In recent years, the tremendous changes in economic systems, politics, and technology throughout the world, which have combined with certain specific factors such as the opening of Eastern European markets, have all acted to enhance Istanbul's position among world cities. With this rapid transformation process, foreign-capital companies are investing in Turkey, especially in Istanbul. The Istanbul metropolitan area is an essential centre of focus within the changing world balances in the region encompassing the Balkans, the Middle East, and the Turkic Republics. There are also economic potentials in addition, to the natural and geopolitical location of Istanbul. The advantageous conditions of Istanbul have been highly effective, including its location as an important market, the presence of the qualified, young and low-cost workforce, a dynamic and open economy and liberal foreign capital legislation, an advanced access and communication infrastructure, an advanced work environment, as well as operations of the world-famous multinational companies.

Due to both its geographical location and its historical relationships, today the Turkish Republic acts as a country that bridges markets across Northern Africa and the Middle East thus are becoming an important point for foreign logistics firms. Within the last decade, the importance of the logistics sector increases gradually in the Istanbul metropolitan area, located in the crossroads between two continents in terms of the Istanbul's international dealings.

In this light, it is necessary, to have an understanding of both the foreign firms in logistics industry operating in Istanbul and the impacts of the characteristics of these companies on the city's development. However, the role that the characteristics of logistics FDI firms play on the location choice at the intra-metropolitan level is unknown. This paper focuses on the characteristics and spatial distribution of foreign firms in logistics industry.

Keywords: FDI, spatial analysis, logistics industry, Istanbul, Turkey

INTRODUCTION

The increase tendency of foreign direct investments (FDI), which started in the 1980s, is continuing worldwide (UNCTAD, 2005). Foreign direct investments have been considered an engine of development in terms of provision of economic development for the developing countries (UNCTAD, 2005; Borenztein et al., 1998). This can be explained in terms of the provision of income, employment, new technology, modern know-how, management skills, marketing contributions, and exportation opportunities by the foreign investments for the economy of the host country (Baniak et al, 2005; Pavlinek, 2004). Many developing countries have made economic and structural arrangements in order to obtain such benefits and attract foreign investment.

At the beginning of the 1990's, the investments directed to the developing countries had a share below 20% of the world's investment capacity. However, in the middle of the 1990's this share increased to 40 %. With policies implemented since the early 1980s, Turkish government has aimed at developing a free market economy, and has replaced the country's traditional inward-oriented import-substitution policies with an export-oriented development strategy (Tatoglu and Glaister, 1998a & b). As a result of these policies, which were made in order to increase the FDI inflows, the number of FDI firms increased 29 times (Berköz 2001). Although in 1990, Turkey was the second developing country to attract the highest FDI with a foreign capital investment of 1 billion USD, after China, it has not been able to maintain this beneficial position in the world. Increase in FDI especially in Turkey after 1990 is less than expected compared to other developing countries (Berköz and Türk, 2007).

The number of FDI firms in Turkey showed a substantial increase at the end of the 1980s and the beginning of the 1990s (Tokatlı, Erkip, 1998, p.87) as a result of the policies implemented since the early 1980s, aiming at developing a free market economy and replacing the country's traditional inward-oriented import-substitution policies with an export-oriented development strategy (Balasubramanyam, 1996). Foreign direct investment is considered a solution for Turkey in order to eliminate the problem of insufficient resources (DPT, 2000; Karluk, 2001). Besides, it will serve to maintain the economic development and the political and legal framework established to facilitate foreign capital inflow. As a result of the policies adopted in the 1980s, the number of the foreign investment companies in Turkey increased 29 times in 2000 (Berköz, 2001). While an inflow of 35 million dollars was achieved in Turkey in 1980, such inflow increased to 684 million dollars in 1990, and after 2000, it went over the level of 1 billion dollars.

Despite the increase, it was often stated that the FDI inflow in the period between 1990 and 2000 was not at an expected level (Karluk, 2001). Within that period, factors such as economic and political instabilities, bureaucratic handicaps, crises, and earthquakes (TC Foreign Trade Undersecretary website, 2006; Karluk, 2001; Keyder, 2000) were determining in the failure of the realization of foreign capital investments at an anticipated level. There was a substantial increase after 2000 due to the reforms in 2000 and the EU accession process, and as a result of Law No: 4875 in 2003, FDI inflow increased even more. As a result, the number of foreign-capital firms increased by 53.1% with respect to the previous year (UNCTAD, 2005). Also, the sectoral structures of the foreign investments that came to Turkey over the last twenty years demonstrated substantial changes; accordingly the share of the service sector increased dramatically. As is the case within other developing countries, spatially, foreign investment focused on the biggest city in the country. For this reason, Istanbul attracts the highest level of foreign investment in Turkey. 75.39% of Turkey's total capital investment and 63.29% of the total number of firms in Turkey are in Istanbul. Istanbul has attracted 59.63% of the firms that have made investments in a sector of industry in Turkey with 55.22% of this capital, and 66.35% of the firms making investment in the service sector with 92.33% of the capital (Berköz and Eyuboglu, 2005). Most recent studies have focused on the location determinants of foreign manufacturing investment. Locational choices of FDI firms in a host country can be considered in two different types in literature. The first type explains locational choices in terms of some traditional factors like transportation infrastructure, market potential, labor costs, agglomeration economies, and government policies. The second type, on the other hand, highlights a range of environmental variables that function as political, economic, legal and infrastructural factors of a host country (Berköz and Türk, 2008).

The impact of transport has been widely studied by previous studies in the literature (Chen, 1996; Head and Ries, 1996; Cheng and Kwan, 2000; Coughlin and Segev, 2000). It has been

suggested that transportation access to markets is the central element in industrial location choice. The availability of transportation infrastructure was important to firm location. Still some empirical findings were relatively beyond expectations (Head and Ries, 1996; Cheng and Kwan, 2000). Glickman and Woodward (1987) suggested that the importance of transportation might diminish due to the rise of new transportation and communication technologies.

One of the significant determinants of FDI infrastructure is that there is a positive relationship between infrastructure and inward FDI. Studies by Wei and et al. (1998), Mariotti and Pischitello (1995), Broadman and Sun (1997) and He (2002) support the importance of infrastructure in the locational decisions of FDI since there is a direct proportion between the infrastructure of a location and its desirability (Wei et al., 1999; He, 2002).

Hong and Chin (2007) studied the location behavior of foreign logistics investments across Chinese cities. A partial equilibrium model was established to investigate how locational characteristics affect the profit of logistic providers. Based on a theoretical model, a nesedlogit model is introduced and estimated using data in 1775 foreign logistics establishments. Hong and Chin found that market size and transportation infrastructure are important factors in attracting foreign logistics investments.

Berkoz and Turk (2006) assessed the most important regional determinants in the location preference of FDI firms in Turkey. The study was based on a sample of 90 companies that were surveyed in metropolitan areas in Turkey in 2006. Descriptive analysis and T test statistical analysis techniques have been used in the analysis of the data obtained from the questionnaire. This one-sample T-test has been performed to determine whether the mean rating of a sample is significantly different from the population mean. According to the results of T-test, the most important factors in location preference of foreign investment firms have been determined. When the market factors of the surveyed FDI firms are examined in order of importance, “quicker accessibility to market” has been determined to be the most important factor, while the factors of “potentiality of new markets” and “proximity to customers” are the subordinate ones. The T-test results also indicate that the most significant infrastructure factor of the surveyed FDI firms has been observed to be “the quality of communication network” with the highest “t” value. Following this, the other important infrastructural factors are “the existence of communication network”, “accessibility to advanced highway network” and “reasonable transportation costs”.

In this light, it is important to have an understanding of both the foreign firms in logistics industry operating in Istanbul and the impacts of the characteristics of these companies on the city’s development. However, the role that the characteristics of logistics FDI firms play on the location choice at the intra-metropolitan level is unknown. This paper focuses on the characteristics and spatial distribution of foreign firms in logistics industry.

THE CONDITIONS OF THE LOGISTICS SECTOR IN TURKEY

The following evaluation has been taken from the Evaluation Report of 2007 prepared by International Transportation and Logistics Service Producers Association (UTİKAD, 2007):

1. According to the official data of TÜİK, Turkey’s export is 107 billion USD as of the end of 2007. This represents a 25% increase compared to 2006.
2. Turkey’s trade with its land border neighbors, in other words, with the countries that should be its primary market, has a low share both in export and in import. In this respect, it is understood that neighboring countries are far from being target markets.

In order to improve trade with its neighbors, Turkey should primarily reinforce its transportation connection and infrastructure.

3. In 2007, the predominance of European countries and European Union member countries has remained in Turkey's foreign trade. According to TÜİK's data, Turkey has realized 56.86% of its export, and 43.35% of its import with trade relationships with European Union member countries.
4. According to the data of Turkish Statistics Institution, in 2006, 86.7% of Turkey's foreign trade volume was transported by sea, 11.4% by land, 1.2% by railway, 0.9% with other ways, and 0.1% by air. Compared to 2005, foreign trade transportation volume by sea decreased by 0.7%, while land transportation volume increased by 1.0%.
5. When the transportation amount according to types of transportation is considered, it is seen that 190 million 309 thousand tons of cargo was imported or exported by sea, 22 million 330 thousand tons by land, 2 million 758 thousand tons by railway, 712 thousand tons by air, and finally, 387 thousand tons of cargo was transported by other transportation ways.
6. According to the data of The Central Bank, Turkish transportation companies, which had a share above 60% in Turkey's foreign trade in 2001, lost this share from 2002 onwards; and as of the beginning of 2007, their share dropped as low as 30%, slightly increasing to 32.8% by the end of 2007.
7. The Figure 1 reveals that not only does Turkey have deficiency in cash in foreign trade, but also it does not wield its own logistic possibilities in foreign trade from other countries. In other words, while Turkey imports goods at an increasing level, it also leaves the transportation of imported goods to foreign transportation companies.

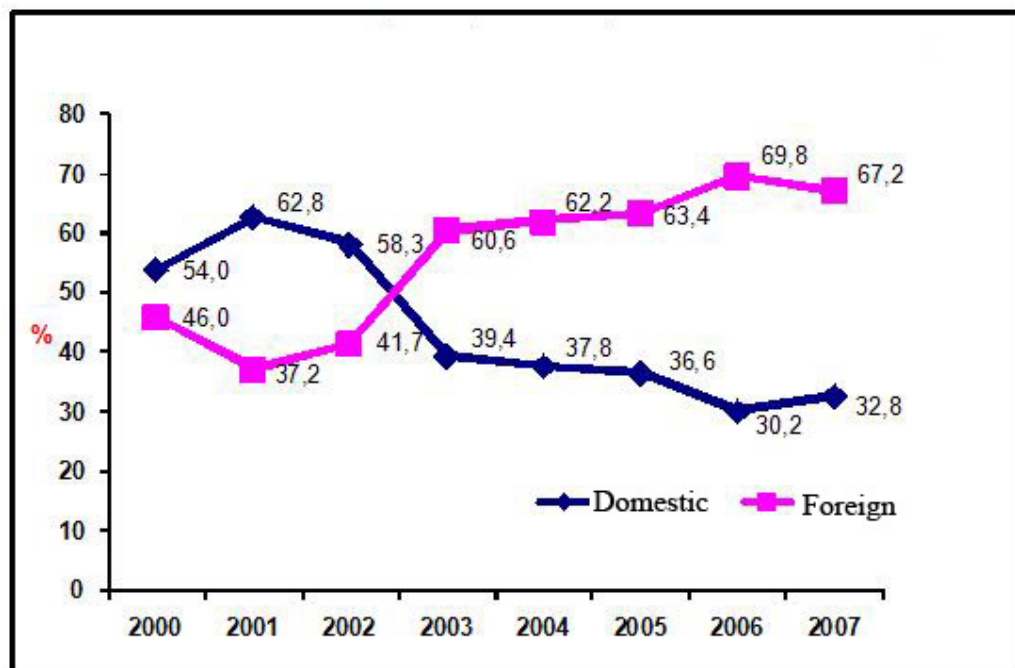


Figure 1. Local and foreign shares in freight costs (2000 – 2007)

Source: TR Central Bank, million USD

8. According to the data from the Ministry of Transportation Land Transportation Administration, there are 1491 firms available with the international certificate of authority for land transportation as of December 13, 2007. Among the international land transportation, forwarding to Europe constitutes 54.6% of the total forwarding trips by Turkish land fleet, 54.14% of the cargo weight in tons, and 52% of the value of the cargo transported.
9. With regard to export transportation to European countries, the year 2007 demonstrated an increase by 16% with respect to the previous year.

FOREIGN CAPITAL AND LOGISTICS SECTOR IN ISTANBUL

When the distribution of the FDI firms per year and per district is observed, it can be seen that 74% of foreign-capital firms in Istanbul in the period between 1954 and 1980 were situated in the central districts and 26% in the suburbs, whereas these figures were 82% and 18%, respectively in 1981–1990. In 1991–2000, 76% of the foreign-capital firms were situated in the central districts and 24% in the suburbs. In 2001–2003, 75% of the foreign-capital firms were situated in the central districts and 25% were in the suburbs.

When the distribution of foreign investments in the service sector per district is observed, it is seen that 82.5% of the firms are located in the central districts and 17.50% are located in the suburban districts.

When the distribution of foreign investments in the industrial sector is observed, it can be seen that 59.94% of the firms are located in the central districts and 40.06% in the suburban districts.

The foreign investors in the industrial sector are substantially located in the suburbs. The foreign investors in the service sector are predominantly located in the central districts (Table 1, Figure 2 and 3).

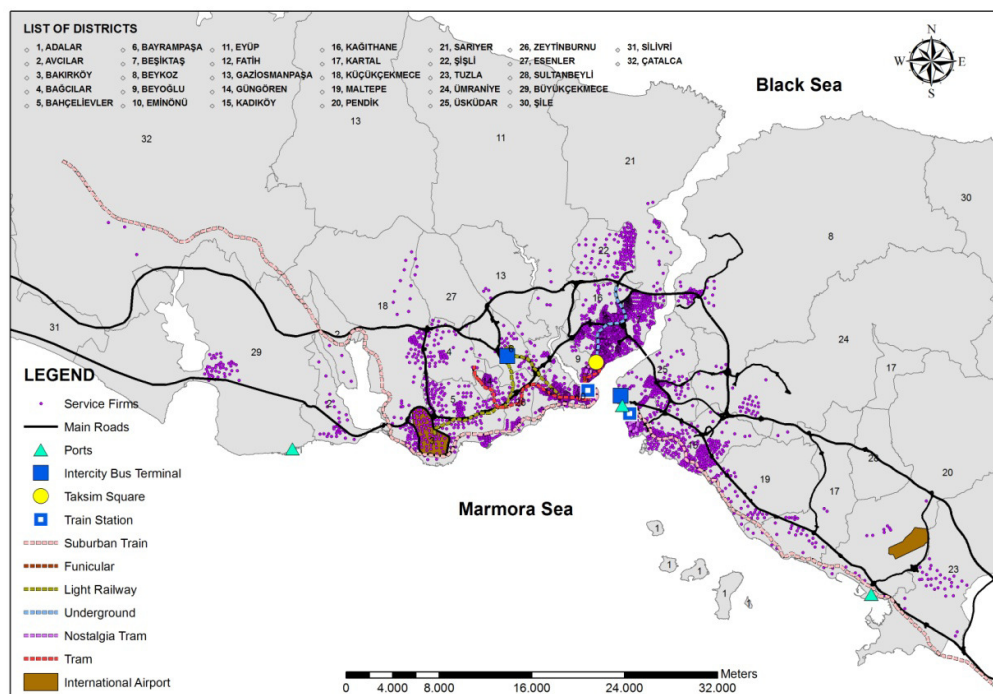


Figure 2. Distribution of service sector FDI Firms in Istanbul metropolitan area

Table 1. Distribution of FDI firms according to three zones of Istanbul by sectors

<i>Central Districts</i>	<i>Total</i>	<i>Services</i>	<i>Industry</i>	<i>Agriculture</i>
Şişli	23.79	25.36	19.69	22.06
Beşiktaş	16.38	16.29	16.56	17.65
Beyoğlu	11.15	11.72	9.31	19.12
Kadıköy	8.81	8.66	9.19	8.82
Eminönü	6.34	7.94	2.19	4.41
Fatih	3.95	4.95	1.44	0
Bakırköy	3.69	4.41	1.56	8.82
Üsküdar	2.99	3.17	2.38	5.88
<i>Suburban Districts</i>				
Bahçelievler	2.56	2.61	2.44	2.94
K.Çekmece	2.18	1.53	3.94	1.47
Güngören	1.75	1.31	3	0
Bağcılar	1.64	1.15	3	0
B.Çekmece	1.55	1.03	3	0
Ümraniye	1.42	0.73	3.25	1.47
Tuzla	1.4	0.77	3.06	1.47
Maltepe	1.38	1.17	2	0
Kartal	1.37	0.75	3.06	0
Kağıthane	1.21	0.96	1.94	0
Zeytinburnu	1.1	0.96	1.5	0
Bayrampaşa	1	0.49	2.31	1.48
Beykoz	0.91	1.06	0.5	2.94
Avcılar	0.86	0.85	0.94	0
Pendik	0.84	0.52	1.69	1.47
Sarıyer	0.56	0.68	0.25	0
Eyüp	0.39	0.35	0.5	0
Gaziosmanpaşa	0.32	0.16	0.75	0
Çatalca	0.19	0.16	0.25	0
Silivri	0.15	0.21	0	0
Esenler	0.12	0.05	0.3	0

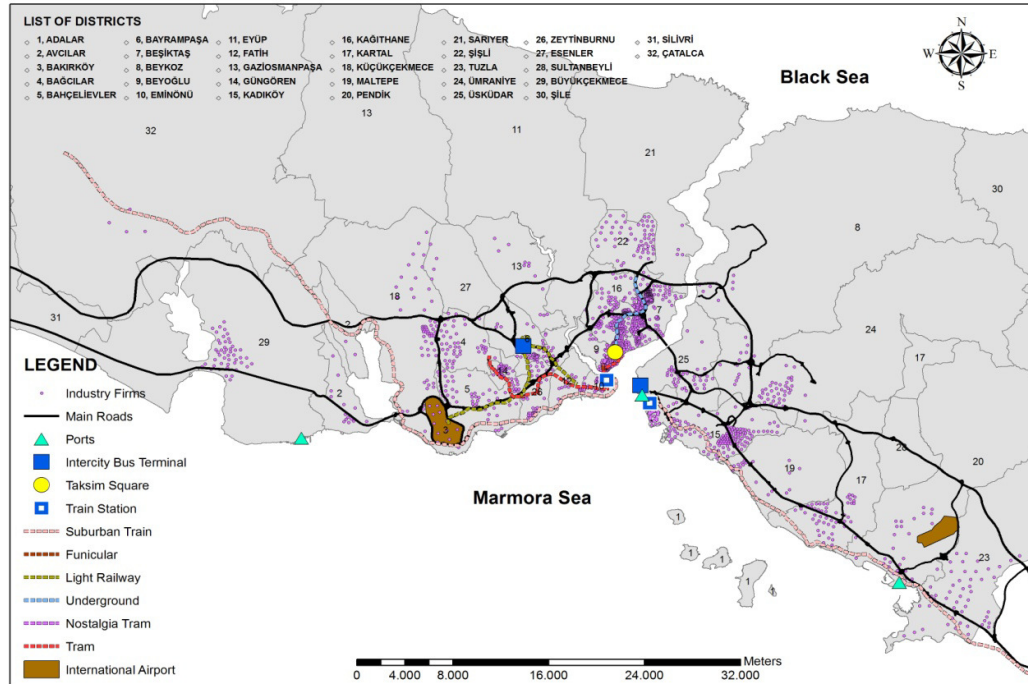


Figure 3. Distribution of industrial sector FDI Firms in Istanbul metropolitan area

There are 414 foreign direct investment logistics firms available in Turkey. 80% of these firms are located in Istanbul (330), and 20% have made little investment in other cities of Turkey (See Figure 4). Izmir follows Istanbul with 14 firms. As it can be seen in Figure 4, logistics firms prefer to make investments in Istanbul, which is the biggest metropolitan area in Turkey. Totally, there are only 84 logistics firms in the 15 cities of Turkey apart from Istanbul.

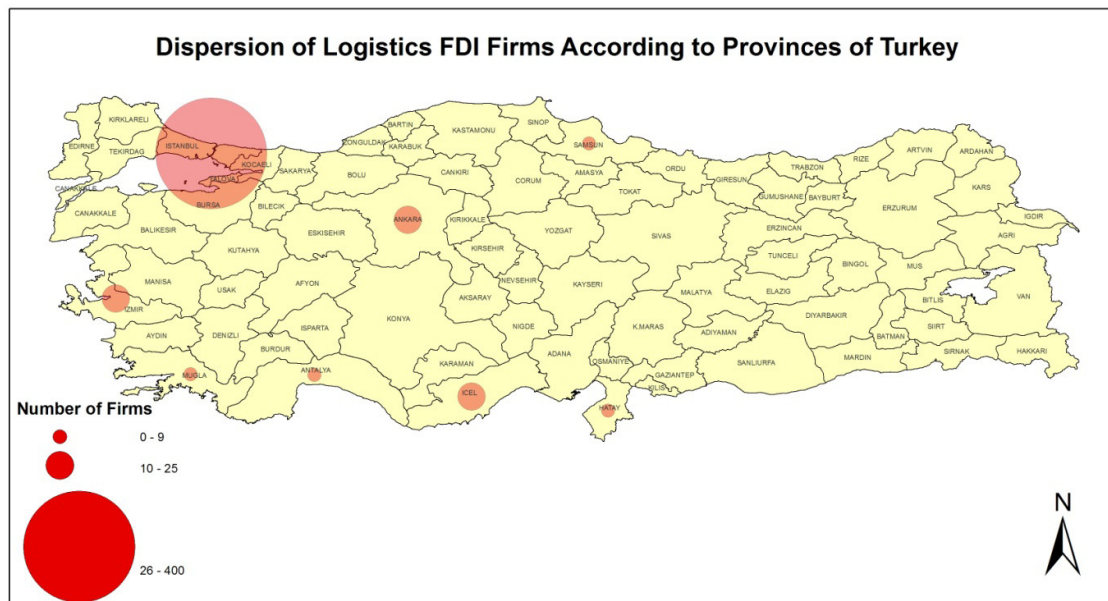


Figure 4. Dispersion of logistics FDI firms according to provinces of Turkey

According to the report of YASED, Istanbul held 6174 foreign capital investments at the end of 2003 (Table 1). 5.3% of the FDI firms in Istanbul have made investments in logistics sector. Of all the 330 logistics firms that have made investments in Istanbul, 21.2% constitutes sea transportation, 17.8% air transportation, and 3.3% land transportation, while the remaining 57.5% provides service related to transportation (Figure 5 and 6).

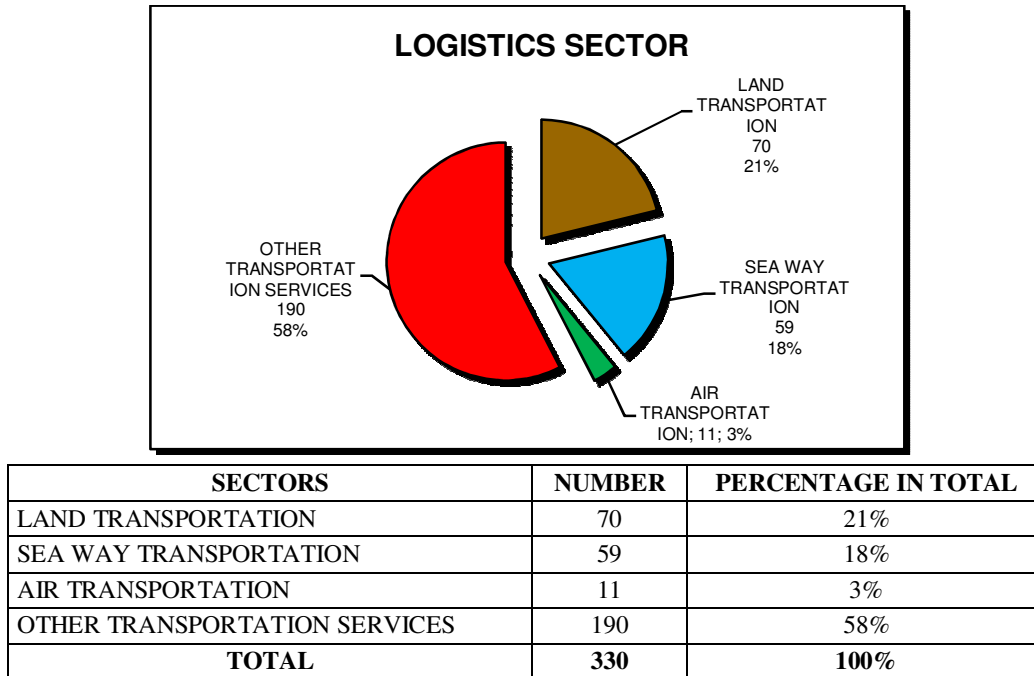


Figure 5. Percentage of Logistics Sector in Total

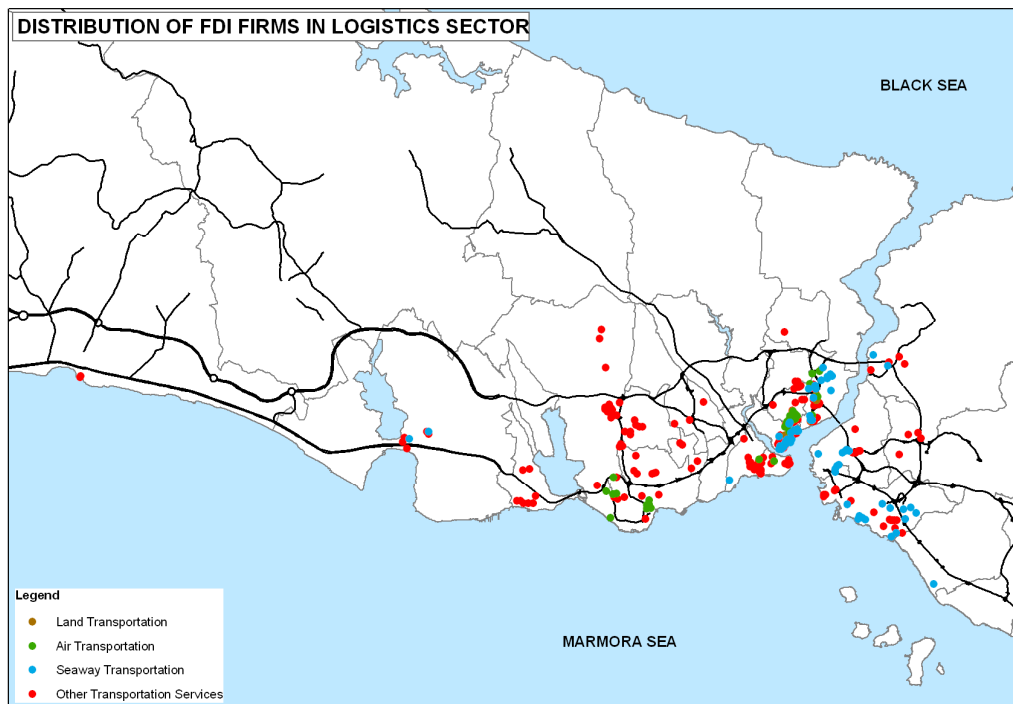


Figure 6. Distribution of FDI firms in logistics sector

An analysis of the capital size at the firms' disposal reveals that only 4.0% of the firms have ample capital. 73.0% of the firms have low capital (Figure 7 and 8). Only, 4% of the firms have a capital size of above 5000000 YTL.

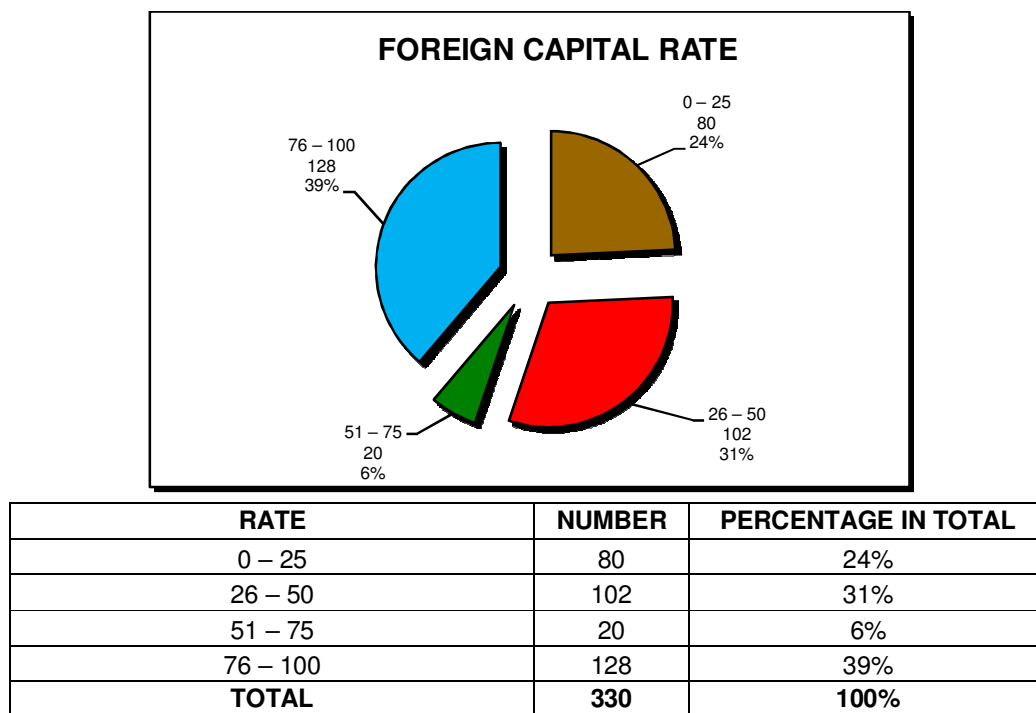


Figure 7. Percentage of Foreign Capital Rate

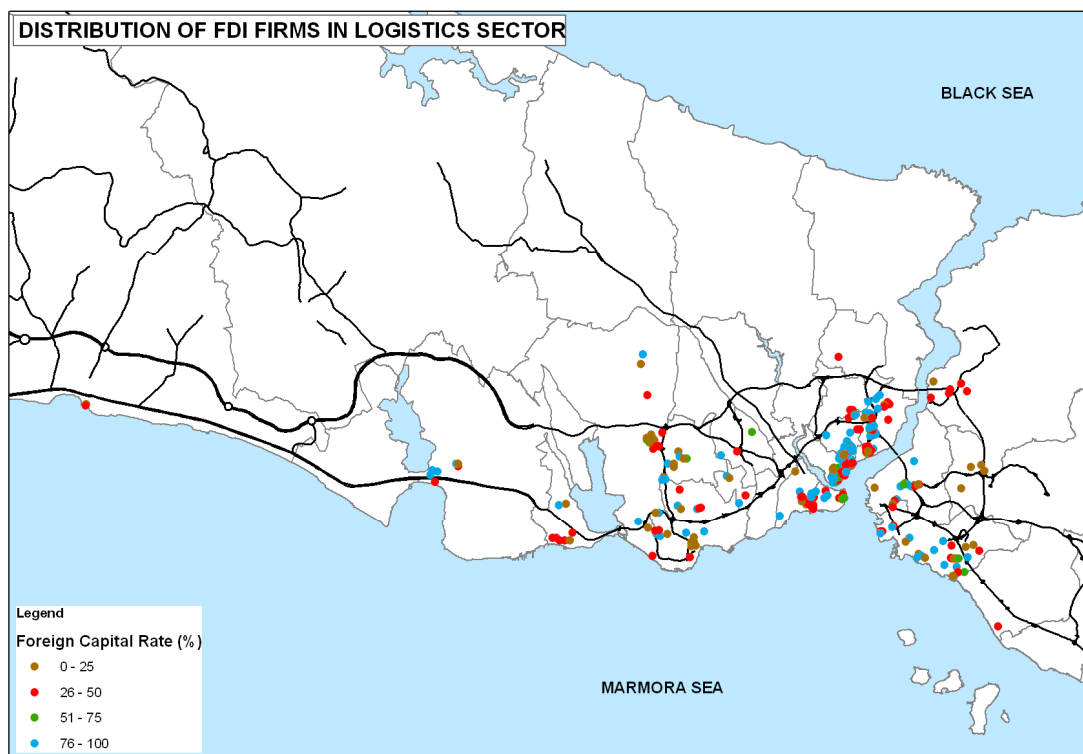


Figure 8. Distribution of FDI firms in logistics sector according to amount of capital investment

There are different modes of entrance into the foreign market. Some of the most common of these modes are: exporting, licensing, equity joint venture (EJV) and wholly owned subsidiary (WOS).

Each of these modes has different control and decision-making levels. When the rate of foreign partnership among logistics firms is considered, it is seen that 24% of firms possess a capital rate less than 25%, and 31% bear 26%-50% of the capital rate. Finally, 6% of them have 51%-75% of the capital rate and 39.0% of the firms have foreign investment varying from 76% to 100%. 18.0% of FDI firms in logistics sector are wholly owned subsidiary (WOS) (Figure 9 and 10).

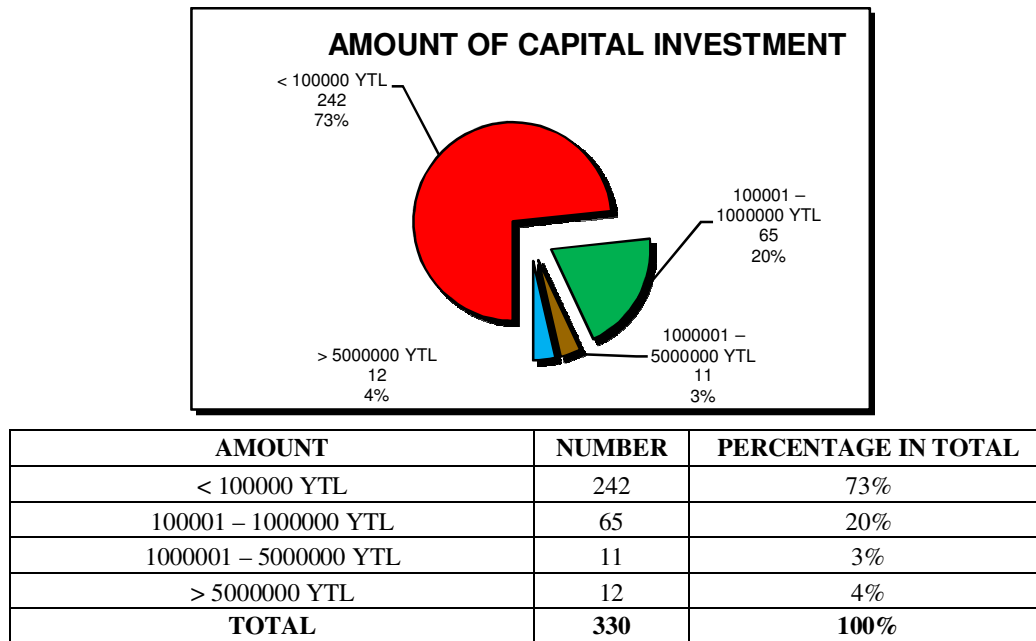


Figure 9. Percentage of Amount of Capital Investment

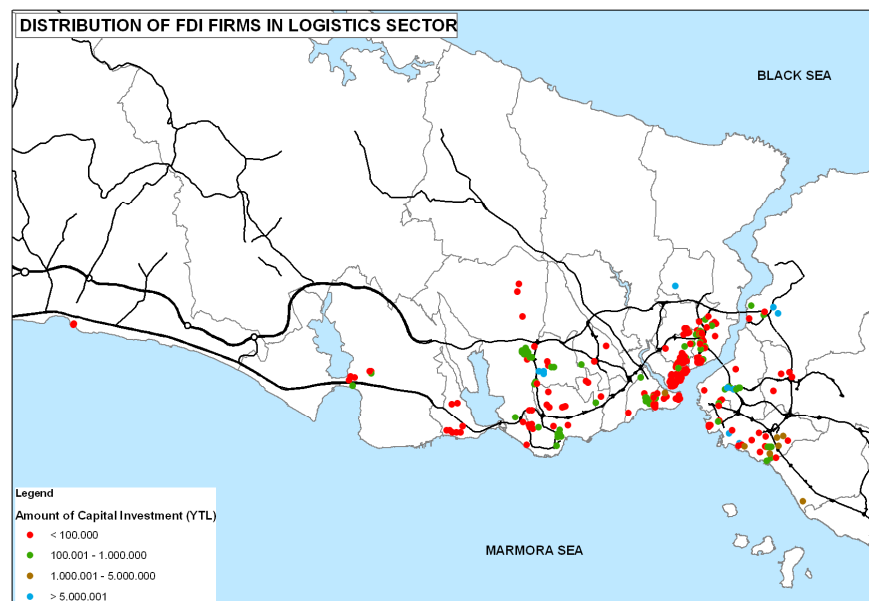
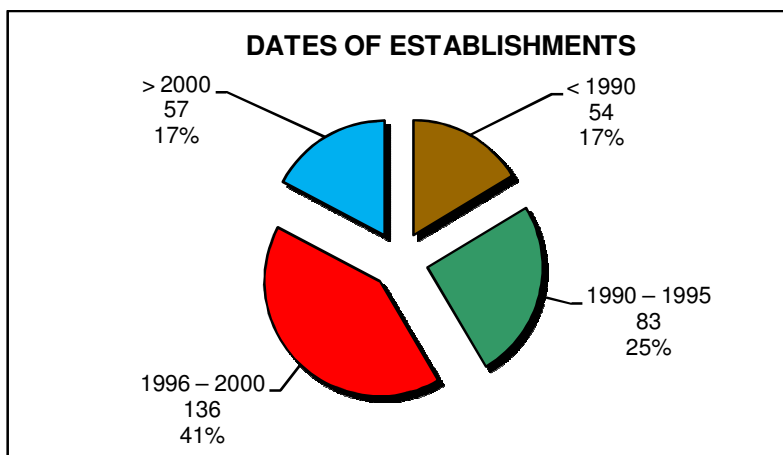


Figure 10. Distribution of FDI firms in logistics sector according to foreign capital rate

The study findings also show that 79.0% (261) of the 330 FDI firms in Istanbul have preferred to make investment in central districts, while 21.0% are located in peripheral districts. (See 5 and 6)

16% of FDI firms in logistics sectors were established before 1990, 67% between 1990 and 2000, and 17% after 2000 (Figure 11 and 12).



DATES	NUMBER	PERCENTAGE IN TOTAL
< 1990	54	16%
1990 – 1995	83	25%
1996 – 2000	136	42%
> 2000	57	17%
TOTAL	330	100%

Figure 11. Percentage of Date of Establishment

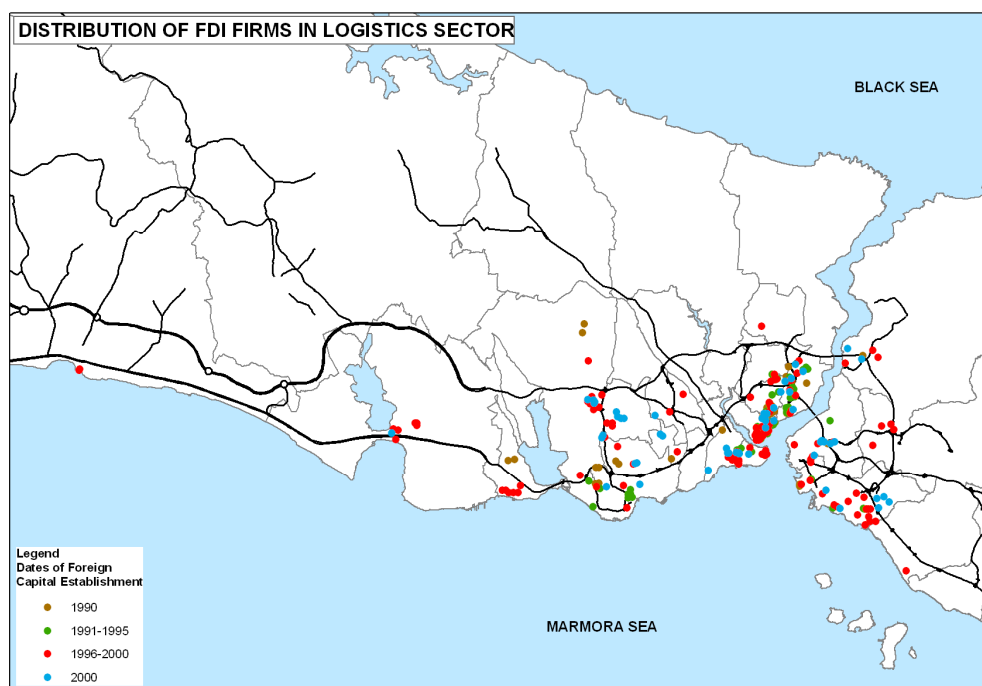


Figure 12. Distribution of FDI firms in logistics sector according to dates of foreign capital establishments

CONCLUSION

Having entered the new millennium as a developing country, Turkey bears the potential to be the new local power in the region that encompasses the Balkans, Middle East and Caucasias, making use of the historical, geographical, ethnic and economic opportunities it conveys in the changing global balances. With the dissolution of the Soviet system after 1989, Istanbul has become the center of the wide hinterland that includes three continents and covers the countries neighboring the Balkans, Caucasias, Turkic Republics, Middle East, and the Black Sea (Berköz, 2005).

Whereas foreign capital made investments in the industry sector, namely manufacture in Turkey before 1980, today this trend has changed, and services sector, banking, insurance trade, and the sub-sectors of investment finance have become more preferable.

The effects of social and spatial changes that have arisen as a result of globalization throughout the world have also been observed in the Istanbul metropolitan area since the 1990s. In this fast process of development and transformation, FDI firms have been making investments in Turkey, especially in Istanbul, the biggest city in Turkey. A lot of beneficial conditions have been influential in this outcome, such as Istanbul's location, its being an important market, the availability of quality, efficient, low-cost and young workforce, dynamic and open economy, liberal regulations related to foreign capital, advanced transportation and communication infrastructures, and the activities of world-famous multinational firms. Despite these, disadvantages such as political and economic instabilities in the country, the difficulty to project long-term plans, the tension in the neighboring countries, and political uncertainties in the region still impend (B and Turk, 2008 a&b).

In spite of the potentialities and the beneficial conditions it had in the 1990s, Istanbul has managed to attract foreign capital below expectations compared to other developing economies. An important reason for this deficiency is that effective plan-policies and strategies could not be produced regarding the distribution of foreign capital both on intra-metropolitan and inter-metropolitan levels. Uncertainties about spatial planning, in other words, the lack of a long-term planning renders lack of confidence and certain regards on part of the foreign capital (Berkoz and Turk, 2008 a &b).

In terms of its location, Istanbul metropolitan area plays an important role in transporting the rich raw material resources of the region spreading from the Balkans to the Middle East to their final destination in world markets, which is to say that Istanbul has a critical role in coordinating production and consumption. For this reason, it is a city where logistics sector would prefer to make investments. 80% of the FDI logistics firms in Turkey have made their investments in Istanbul. 84% of the FDI logistics firms in Istanbul were established after 1990. The majority of these firms (73%) have low capital. Despite the beneficial conditions, the risks and uncertainties in Turkey and its surrounding region prevent foreign capital from making further investment in this sector. In addition to this, the transportation connection between Turkey and the surrounding countries is not adequate. For these reasons, foreign capital prefers to enter into partnership with domestic firms instead of establishing new companies, and thus eliminates risks by becoming a partner of a domestic firm, which is familiar with the local market.

It is observed that Turkey also fails to wield its own logistic means in incoming movements of goods in foreign trade due to the low quality of land connections between itself and the Middle East countries and the inadequacy of security conditions. While Turkey imports goods with an increasing rate, it leaves the transportation of the imported goods to international transport companies.

It is expected that FDI investments will increase in the 2000s, which is a period of rapid transformation. Resources and capital have been distributed throughout the country in an unstable fashion, and have accumulated in Istanbul, the biggest metropolitan city in the country. For a stable distribution of FDI logistics firms throughout the country, it is important to provide economic conditions that will enable business in the markets, and to ameliorate the conditions related to the spatial quality of the region. In this way, it will be possible to provide the necessary conditions for foreign capital to make investments, which will make this region more attractive by reinforcing the transportation connections between the neighboring countries and improving the quality of infrastructure so that accessibility to neighbor markets will increase.

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