

LOCAL EMBEDDEDNESS OF TRANSNATIONAL CORPORATIONS:
TURKISH CASE

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ABSTRACT

LOCAL EMBEDDEDNESS OF TRANSNATIONAL CORPORATIONS: TURKISH CASE

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This thesis aims to clarify the issue of local embeddedness with regard to TNCs and to understand the process of TNCs' local embeddedness in the case Turkish case. In order to reach this aim a methodology is utilized by combination of qualitative and quantitative data analyses in different level analyses. Since, embeddedness is a process that begins locational preferences of TNCs, the first level analyses are concentrated on locational distribution on national and city level analyses. Then, deep-interviews are held by TNCs in İstanbul to identify other qualitative variables affecting local embeddedness of TNCs. As a conclusion, local embeddedness process of TNCs in Turkey is realized in a slightly different path from developed countries. Some of the deficiencies in Turkey, like strong institutional structure, are the main reasons for these differences. To turn the situation for Turkey's advantage it is essential that required conditions for local embeddedness should be supplied.

Keywords: Local Embeddedness, Transnational Corporation, İstanbul.

ÖZ

ÇOK ULUSLU ŞİRKETLERİN YEREL GÖMÜLÜLÜĞÜ: TÜRKİYE ÖRNEĞİ

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Bu tezin amacı yerel gömülülük kavramını çok uluslu şirketler üzerinden açıklamak ve çok uluslu şirketlerin yerel gömülülük sürecini Türkiye örneğinde anlamaktır. Bu amaca ulaşabilmek için, farklı düzeylerde gerçekleştirilen niteliksel ve niceliksel veri analizlerinin kombinasyonunu içeren bir metodoloji kullanılmıştır. Gömülülük çok uluslu şirketlerin yer seçim tercihleriyle başlayan bir süreç olduğundan ilk aşamada yapılan analizler ülke ve kent düzeylerinde yer seçim dağılımlarının incelenmesiyle gerçekleştirilmiştir. Daha sonra, çok uluslu şirketlerin yerel gömülülük kararlarını etkileyen diğer niteliksel değerleri tanımlamak için İstanbul'da çok uluslu şirketlerle derin görüşmeler yapılmıştır. Sonuç olarak, Türkiye'deki çok uluslu şirketlerin yerel gömülülük sürecinin gelişmiş ülke örneklerinden farklı bir yol izlediği görülmektedir. Güçlü kurumsal yapı eksikliği gibi bazı yetersizlikler bu farklılığın temel nedenlerindedir. Bu durumu Türkiye'nin lehine çevirebilmek adına yerel gömülülük için gerekli koşullar yerine getirilmelidir.

Anahtar Kelimeler: Yerel Gömülülük, Çok Uluslu Şirket, İstanbul.

To My Parents

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CHAPTER I

INTRODUCTION

Globalization process is essentially uneven-heterogeneous in its form and effects, criticizing a dualistic opposition between global flows and local fixities (Amin and Thrift, 1997; Dicken et al., 1997; Storper, 1997; Lee, 1999). Recent studies on this subject argued that there is no single globalization strategy, emphasizing various globalization strategies pursued by Transnational Corporations (TNCs). Local embeddedness of TNCs which give reference to the spatial fixity is one of these strategies.

In spaces of globalisation, how TNCs choose between local embeddedness and spatial differentiation is an important question. Despite the fruitful discussions on the nature of globalization and TNCs in recent years (Amin and Thrift, 1997; Dicken et al., 1997; Storper, 1997; Cox, 1997; Mair, 1997; Yeung, 1997; Yeung, Poon and Perry; 2001), few attempts have been made to analyze TNCs' local embeddedness especially in developing country cases. These limited analyses show that local embeddedness of TNCs initially depend on the degree of available local factors (Cox, 1993, 1995, 1997; Amin and Thrift, 1994; Ettlinger, 1999; Mair, 1997; Storper, 1992, 1997; Yeung, 1997; Dicken et al. 1994). It is argued that infrastructure, tax benefits, social services provided by national state, and benefits from non-local firm linkages (such as customer linkages and

raw material suppliers outside the region) are crucial factors should not be reduced of TNCs' spatial fixities (Dunning, 1988; 1993; 1997). Therefore, the dependence on local factors should not be reduced to the local scale (Cox, 1995). This dependence on local factors can be created through historical uniqueness and national state policies at the national level as well as through local culture, technology, labour, and local government policies at the local level (Lee, 1998). Because TNCs are too sensitive to these types of attributes for their competitive advantages (Lee, 1999).

From this perspective, the aim of this thesis is to re-evaluate the notion of local embeddedness –especially from a TNC perspective- to clarify the local embeddedness structure of TNCs and to understand the process of local embeddedness in Turkish case.

The second chapter of this thesis includes a literature survey on TNCs and its locational preferences in order to establish a framework for local embeddedness of TNCs. The literature survey on the FDI and its locational preferences are evaluated in the first section as examining the locational preferences of TNCs is essential, for understanding embeddedness as a process starting with the selection of location. From this point of view three important theoretical contributions can be identified for the explanation of TNCs and their locational preferences. The first one is related to the contribution of Hymer during the 1960s, and the second one can be articulated as the “eclectic paradigm” that had been developed by Dunning, whereas the last one incorporates the emergence of the new world economy since the 1980s.

The concept of embeddedness and local embeddedness of TNCs are the issues that have been underlined strongly in the second section of this chapter. At the beginning of this section Polanyi's and Granovetter's original works are re-

visited quickly by looking at the adoption of the concept of embeddedness in different strands of social science, not least in business and organisation studies (Dacin et al., 1999) and economic geography (Oinas, 1998). After discussing the categories of embeddedness concept developed in the context of various topics like business systems, global networks and so on, an integration of space into the embeddedness concept is described with reference to the TNCs. Some of the critical discussions regarding the local embeddedness of TNCs is explained in detail in the quest to understand and point out the main concepts and categories for the case studies.

The third chapter elaborates the methodology involved in this study, which is based on triangulation data and triangulation methodology, that includes both quantitative and qualitative analyses, can be utilized in different levels. Quantitative analyses are used in national/country level and city level analyses to clarify general structure of TNCs. Different statistical and visual analyses are realized in these levels. Qualitative analysis, on the other hand, is realized according to the grounded theory building techniques as the most proper method for the analysing local embeddedness of TNCs in the individual firm level. Initially the levels of the thesis is explained and the grounded theory which is the main approach especially used in the deep-interview process, is explained conceptually and following this, the ways in which it is used in this thesis will be explained shortly. It is possible to find general characteristics and phases of this approach and its repercussions to this thesis in this chapter.

The fourth chapter, which incorporates the case study, is divided into two sections. The first section includes national and city level quantitative analyses of TNCs and their relations with Turkey's political and economic structures and the second section includes interviews along with their qualitative analysis. The first two levels are analyzed under four different periods to identify the general

characteristics of TNCs in Turkey and to understand the attractiveness of İstanbul and to clarify its position with reference to country data in regard to the number and spatial distribution of TNCs. The first period is between 18th century and World War I, the second period is from 1920 to 1945, third period is between 1946 and 1989, and the fourth and last period is starting from 1990 up to now. As mentioned above these periods have been designed with reference to the economic and political developments in Turkey. The second section of that chapter is given the results of the third level of analyses that are realized in İstanbul with selected TNCs. Deep-interviews that are held to understand how the factors identified previous levels influence TNCs and to identify other “qualitative” variables affecting local embeddedness of TNCs. General characteristics, managerial/organizational structure and production structure of TNCs are analyzed in this section. The interrelations between propositions generated by the local embeddedness of TNCs’ debate and supporting case studies are discussed at the end of this chapter, namely, “rethinking the theory with reference to practice”. An overall evaluation and conclusions are incorporated in the final chapter.

CHAPTER II

LITERATURE SURVEY

The concept of embeddedness can be considered as being a process that is supported by the locational preferences of Transnational Corporations (TNCs). Within this context this chapter contains a literature on Foreign Direct Investment (FDI) theories and locational preferences that they point out these theories. Following a brief account of these theories, the concept of embeddedness and particularly local embeddedness of TNCs will be described in the second part of this chapter.

II.I. AN EVOLUTION ON DIFFERENT APPROACHES TO FDI: THE IMPLICIT EMPHASIS ON SPATIAL REFLECTIONS

The theory of TNCs and their foreign direct investments (FDI) is currently a topic of central importance within the context of global economic relationships. Multinationals that engage in FDI, i.e. as investments, which acquire a substantial controlling interest in a foreign firm or sets up a subsidiary in a foreign country. These corporations have played an increasingly significant role in the world economy particularly within the last three decades, and their enormous sizes as well as power make them a subject of great concern to consumers, producers, nation states, international organizations.

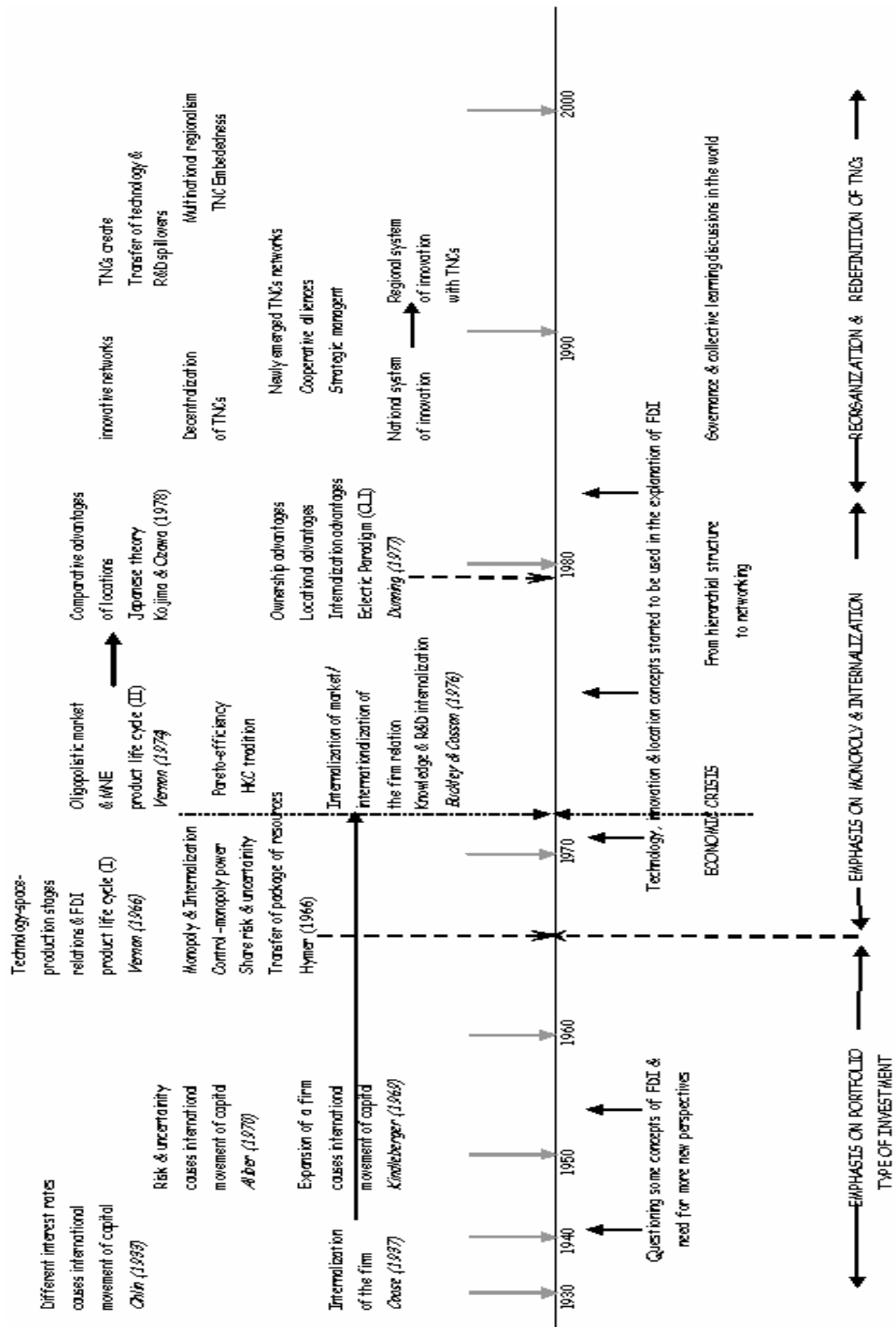


Figure II.I. Evolution of FDI theories

Three important theoretical cornerstones can be identified for the explanation of FDI (Figure II.I): namely; the first one can be related to the contribution of Hymer during the 1960s, and the second one had been articulated as the “eclectic paradigm” that had been developed by Dunning, whereas the last one has been the emergence of the new world economy since the 1980s. These three cornerstones will be examined briefly in the following sections.

II.I.I. Early Attempts Toward Conceptualizing the FDI

During the 1960s there was no established theory. Studies within the framework of the orthodox neo-classical theory generally emphasized the portfolio investment ¹. Moreover, different approaches, as a replacement for theories, developed for the explanation of FDI throughout this period. Certain attempts to explain the activities of firms outside their national boundaries were mostly represented under four topics:

1. A fairly well formalized theory of (portfolio) capital movements (Iversen, 1935);
2. a number of empirical and largely country-specific case studies on the factors influencing the location of foreign direct investment (Southard, 1931; Barlow, 1953; Dunning, 1958);
3. a recognition by some economists, notably Williams (1929), that the internationalization of some industries required a modification to neo-classical theories of trade;
4. an appreciation that the common ownership of the cross border activities of firms could not only be considered as a substitute for the international

¹ In the neo-classical approach, economically advanced countries, owing to their relative abundance of capital but scarcity of labor have low rates of profit or interest but high wage rates prior to the international transactions. So they tend to export goods requiring capital-intensive production methods to less advanced labor abundant countries. Capital thereby flows from countries in which the interest rate is low (owing to the abundance of capital) to these in which it is high (owing to capital scarcity).

cartels and combines (Plummer, 1934), but could be explained, in part at least, by the perceived gains of vertical or horizontal integration (Penrose, 1956; Bye, 1958).

II.I.II. Hymer's Approach to FDI

During the 1960s the TNC has become the dominant organizational form of modern capitalism. It has commanded remarkable influence and power over the economic, social, political, and cultural lives of many nations and people. This development has given rise to many conflicts, contradictions, and very often destabilizing forces within both the national and international economies. Hymer (1979) addresses these and other aspects of TNCs. He put forward to the first modern theory of "international operations" by large companies in his doctoral dissertation. Actually his doctoral dissertation, which was completed in 1960 but first published in 1976, is generally acknowledged to be a path breaking work, critical for the reformulation of the theory of foreign direct investment.

Hymer's first studies were involved with international trade theory, industrial organization and FDI. In fact, it has been indicated that Hymer is best known for the application of an industrial organization theory to the theory of foreign production (Dunning, 1994: 69). His subsequent studies have involved the analysis of production organization, relations of production, and the social consequences of the capitalist system.

Monopoly power, i.e. created by the territorial expansion, **control** in the use of property rights (transferred to their foreign subsidiaries) and market imperfections are the main reasons for FDI in Hymer's work. He viewed *control* by the foreign investor not merely as a desire to *determine the discreet use of assets*

but as a strategic move to *eliminate competition between the investing enterprise and enterprises in other countries* (Hymer, 1979:3).

In addition, international firms operate under the “market imperfections” (Hymer, 1979:3)². On the contrary, some firms have advantages over others, such as economies of scale, absolute costs, patent rights, and the ability to command large capital and technological resources. Certain firms’ enterprises are independent and may be located in different countries. Thus, profits in one country may be up while in other they may be down.

Hymer went on to examine **the kind of ownership advantages that firms contemplating FDI might possess or acquire**, as well as the kind of industrial sectors and market structures in which foreign production was likely to be concentrated. He was interested in **the territorial expansion of firms as a means of exploiting or fostering their monopoly power**. He overlooked the fact that increased profits from the superior efficiency of foreign firms is not necessarily a social loss if the final products are not higher than they would otherwise be. In his later studies, within which a *Marxian*³ framework prevails, he argued that

² This idea that TNCs owe their existence to “market imperfections” was first put forth by Hymer (1960, published in 1976). The market imperfections he had (and then also Kindleberger (1969) and Caves (1971) had) in mind were “structural” imperfections of the monopolistic type, i.e. they arose from exclusive control of proprietary technology, privileged access to inputs, scale economies, control of distribution systems and product differentiation.

³ In the traditional classical and Marxist approaches, there is a tendency in advanced capitalist countries for the rate of profit to fall. This provides an incentive foreign investment in countries at an earlier stage of development, where capital can be employed more profitably (that means increasing foreign investment to less developed countries). If the rate of profit at home has been driven down, owing to the intensify of competition, as in Adam Smith’s argument, then foreign investment in underdeveloped countries serves as an outlet for surplus capital. In Marxist accounts (like Hymer’s studies and Vernon’s later studies), the rate of profit falls either because of a rise in the capital-output ratio (the organic composition of capital), or because of a fall in the share of profits in income (the rate of exploitation). Then, there are likely to be investment opportunities in economically backward countries with low capital-output ratios, or which permit a super exploitation of a weakly organized labor force. Alternatively foreign investment and trade, involve the search for new markets in underdeveloped countries and regions, owing to the inadequacy of local consumption and demand.

capitalism expands by accumulating surplus value through the addition of a new working class at the point of production. In this context some theories of imperialism seem inadequate because they focus on expansion of the market and not of production. Internationally, the workforce of capitalist countries faced “competition” for jobs from proletariats and the “surplus population” in Third World countries. The working class was further divided as a result of sexism, racism, and hierarchical divisions with occupations and between labour markets. Hymer indicated that the significance of this was to control class conflict, much in the same way as he saw the hierarchical division of the world with centres of control located in advanced capitalist countries and production taking place in the Third World countries (Hymer, 1960).

To conclude, Hymer emphasized three main factors pertaining to a firm’s decision to become a TNC; the possession of *oligopolistic advantage, removal of conflict and internalization of “market imperfection”*. He went on the phenomenon of cross investment –firms in the same industry, but headquartered in different countries, investing in each other’s country- can be explained as a reaction in an oligopolistic market. Much of the research done after that time, were refinement or extension of the concepts of oligopoly and internalization. Kindleberger (1969, 1984), Vernon (1966, 1971, 1974) and Caves (1971, 1982) are the best-known to have expanded the “Monopolistic advantage” aspect of Hymer’s theory. They have asserted that foreign investment *presupposes* some degree of monopoly advantage; firms entering new market, it is argued, must have some advantages over local firms in order to overcome the disadvantages that they have in being forced to operate in a new environment. On the other hand, Coase (1937), Buckley and Casson (1976), Williamson (1975, 1986) Hennart (1982), Teece (1981) and Rugman (1981, 1986) can be accounted for the other major contributions of the “internalization” aspect of Hymer’s work.

II.I.I.I. Monopolistic⁴ advantage

The main idea here is that there exist natural disadvantages for a foreign firm operating outside its country of origin: language, cultural and other related problems. Accordingly, for a firm still be able to take overseas activities through FDI, it must be case that the firm possesses the advantage which indigenous firm do not (Pitelis, 1991:196). Technology, know-how, management and liquidity-related advantages could thus be exploited in order to overcome the inherent disadvantages of FDI and make contemplated overseas operations more attractive.

There are two important tradition developed monopolization concept; Hymer-Kindleberger-Caves (HKC) tradition and Vernon's (Product Cycle Model Mark II)⁵ tradition. Both traditions look the FDI from the Marxist point of view and they also concern the competitive international market. According to Pitelis (1991:196), TNCs need not be Pareto-efficient⁶ in *HKC tradition*. Their monopolistic advantages may facilitate *a process of monopolization abroad*, thus potentially reducing the welfare of the host countries. For example, Kindleberger (1969) expresses the belief that the long-run benefits of TNCs will offset any

⁴ Knickerbocker (1973:4) defines term oligopoly, the type of market structure that exists when there are a few sellers (monopoly; if there is one seller), when these few sell products are close substitutes for one another, and when, as a third condition, there is a market interdependence among the competitive policies these firms.

⁵ The early studies of Vernon on Product Cycle Model (PCM) are called mark I, and unlike the later PCM mark II, mark I is a macro economic approach and looks the FDI from the extension of Neo-Classical point of view. Vernon classifies production stages in terms of usage of technological and space in his earlier studies. First stage is the one in which new product is produced and entered to the market. The product is unstandardized because of the need for continual adaptation and improvement of the design to suit customers' needs and production and market proximity is very important in this stage. So, foreign investment is realized in this stage. In the second stage in which product technology is stabilized, product loses its flexibility. Foreign investment continues till the marginal production costs in the home country and marginal transport costs is less than the average cost of production overseas. Investment occurs first in high-income countries where demand patterns follow those of the innovating country. At the final stage, because of product standardization, competition between producers is based on price. For this reason, the most labor-intensive stages of production are transferred to developing countries.

⁶ Pareto-efficiency: an allocation of resources in which it is impossible by relocation to make some consumers better off without simultaneously making other worse off.

short-run costs, the fact that the HKC tradition recognizes the possibility of the existence of both efficiency and inefficiency aspects of TNCs' operations. The possibility that TNCs will try to monopolize global markets so as to obtain monopoly profits and that in so doing they will tend to behave collusively (eliminate conflict) has been developed "global reach" variant of Hymer's theory (Jenkins, 1987:54). Caves explains the interrelation between oligopoly and the Pareto-efficiency in his studies as follows: "the essence of oligopoly is that firms are few enough to recognize the impact of their actions on their rivals and thus on the market as a whole. . . . When an industry contains one firm (monopoly) or many firms (pure competition), the individual sellers react only to impersonal market forces. In oligopoly they react to one another in a direct and personal fashion. This inevitable reaction of sellers in an oligopolistic market we call mature interdependence. . . where mutual interdependence exists, sellers do not just take into account the effects of their actions on total market....., they also take into account the effects of their actions on one another. Oligopoly becomes something like poker game" (Caves, 1967). Additionally, Caves has argued that much *foreign investment that serves to vertically integrate a firm is often the result of oligopolistic market structure.*

Another important explanation in this subject was come from *Vernon's later product cycle studies* (Vernon, 1979). In linking TNEs' decisions to monopolistic structures Vernon argues that, TNE can create an oligopoly in the market by using its production and marketing advantages. Technology creation, innovation, cost reduction and cheap labour are the main factors of oligopoly in this competitive market. He identifies three stages of oligopoly as an extension of his earlier studies; namely innovation-based oligopoly, mature oligopoly and senescent oligopoly and this oligopolistic structure reflects to space in three different forms; near the headquarter (innovation stage), in the rival's region

(stabilizing the market shares stage) and in the world-market (concentration on the international scale).

The first stage is *innovation-based oligopoly*, which is much the same as PCM mark I, except that on the supply side not only are labour-saving innovations recognized, but also land-saving and material-saving ones (Buckley and Casson, 1976: 77). The object of the TNEs' R&D activities is to dominate a field by early innovation and to collect a monopoly rent. According to Vernon (1974: 91) "*one basis on which multinational enterprises have built their oligopolistic strength is through the development and introduction of new products and the differentiation of existing ones. That sort of business strategy is usually indicated by relatively high expenditures for the services of scientists, engineers, and other specialists engaged in development. the facts suggest that multinational enterprises are found dominating the manufacture and trade of goods that are associated with high levels of innovational and development effort*".

There are two locational issues in the innovation-based oligopoly which are of special interest: first the location of the processes of research and development (R&D) themselves; second, the location of the processes of production. Vernon argues that once innovational leads have disappeared in an industry the process of location can be viewed again in terms of the classical model (Vernon, 1974:95). Actually, innovation heavily influences the choice of location of the first production facility for the new product. Depending on where the first facility was located, differences in the cost structures (especially differences in factor costs) between countries may lead to different locational responses on the part of innovators. On the other hand, the locational determinants (like, input costs, communication density with supplied market, etc.) of R&D activities are changing according to the type of the industry. The geographical location of work on industrial innovation is determined by factors that are quite different

from those relating to more abstract scientific research. The basic propositions, however, still seem valid; the directions of innovation in the firm will be influenced by the conditions of the markets that are in the best position to stimulate it; and the industrial development activities that stem from such stimulation will tend to be located close to the headquarters to develop a close contact with the prospective market.

The second stage of the cycle, *mature oligopoly* is very different. Here, “*the basis for the oligopoly is not the advantages of product innovation but the barriers to entry generated by scale in production, transportation or marketing*” (Vernon, 1974:97). Economies of scale in production, marketing and research constitute an effective entry barrier, behind which rival firms, each sensitive to the other’s actions, play out a business game. Each player nullifies aggressive strategies initiated by the others, by matching them move for move. A leader entering an unsupplied market is immediately followed by his rivals⁷. The ultimate sanction against a rival is the instigation of a price war: because tariffs tend to immunize firms from price competition through imports, firms set up production in their rivals’ major markets to strengthen their bargaining position. The ultimate aim is to stabilize the world-market shares of the rival firms through pricing conventions and/or hostages and alliances. Stability being achieved when each of the rival firms produces in each of the world’s major markets. Vernon’s conclusion is that “*there is a hint in support of the proposition that the search for stability in the mature oligopolies leads to a geographical concentration of investment which could not be explained on the basis of comparative costs*” (Vernon, 1974:102). He reaches similar specific conclusions regarding location of production by TNEs and writes: “*there is a strong possibility that the existence of multinational enterprises in the mature*

⁷ Knickerbocker (1973: abstract) emphasizes “follow my leader” statement in this context. According to Knickerbocker’s studies, US businessmen made their foreign direct investment decisions dependently on what their rivals were doing. The empirical findings are also support the “follow my leader” view that is the interdependency notion of the oligopoly theory.

industries tends to concentrate economic activity on geographical lines, to a degree that is greater than if multinational enterprises did not exist" (Vernon, 1974:104).

The final stage is *senescent oligopoly*, in which economies of scale finish to be an effective restriction to entry, and after attempting to erect other barriers, e.g. by differentiating their product through advertising, the producers merge themselves to competitive pressures. Some leave the industry altogether while others, who may have favored access to factor supplies, stay on. In this way the location of production at last becomes determined by competitive forces acting on interregional cost differentials (Buckley and Casson, 1976: 78).

Many consumer durables markets are characterized by a fragile equilibrium: in spite of "considerable product differentiation and brand differentiation, cross-elasticities are still uncomfortably high from the producer's viewpoint" (Vernon, 1974: 105). In these markets the barriers to entry may not be high enough to maintain oligopolistic stability. Producers will often be seeking cost cutting as barriers to entry. Cost reducing locations can be sought at the national or international level. The TNEs are particularly well placed to scan for low-cost locations, particularly in less developed countries.

The evolution of the monopoly concept in these two traditions is like that; Hymer's conceptualization of monopoly mainly emphasizes "desire to control of foreign subsidiary", on the other hand, in HKC tradition the conceptualization of "monopoly" is taken place "monopolize the global market" for the aim of "global reach" variant of Hymer. Additionally, Vernon, in product cycle model mark II, argues that production and marketing advantages create monopoly and the main determinant here is "innovation" for oligopoly. Monopolization concept has reached a point in which "*global + innovative*" terms are the major clues.

II.I.II.II. Internalization Approach

The case with the internalization school is different. Affiliates of this school emphasize the *internalization of market imperfections* aspect of Hymer's theory. Unlike Hymer's own emphasis on structural imperfections, however, such as bilateral monopoly problems, they suggest that TNCs internalize "cognitive" or "natural" market imperfections, defined as those arising out of excessive market transaction costs (Pitelis, 1991:196). The basic notion that the *firm exists in order to reduce the costs associated with the operation of the price mechanism* dates back to Coase. The forceful reintroduction and extension of Coase's insight is due principally to Williamson (1975, 1986).

Coase (1937) in his seminal paper brought to the attention of economists the inconsistency between two different assumptions. The first assumption is that, in market economies, resources are allocated via the price mechanism, and the second assumption or reality that, within the firm, such allocation is done by planning and organization rather than through arm's length transactions (Ietto-Gillies: 1992:113).

He writes:

"Outside the firm, price movements direct production, which is co-ordinated through a series of exchange transactions on the market. Within a firm, these market transactions are eliminated and in place of the complicated market structure with exchange transactions is substituted the entrepreneur-co-ordinator, who directs production" (Coase, 1937:333).

Coase therefore sets for himself:

"The purpose ... to bridge what appears to be a gap in economic theory between the assumption (made for some purposes) that resources are allocated by means of the price mechanism and the assumption (made for other purposes) that this allocation is dependent on the entrepreneur-co-ordinator" (Coase, 1937:334-5).

The gap is bridged by analyzing, from the firm's point of view, the costs of carrying transactions through the market against the costs of organizing the internal allocation of resources; the latter costs will, among others, set a limit to size of the firm. Coase's approach explains the existence and growth of the firm in terms of costs and benefits of internal transactions –and therefore of internal allocation of resources- versus the costs and benefits of external transactions and therefore of allocation of resources through the market.

Coase postulated that transactions within hierarchical structures of the firm are presumed to be less costly than spot market transaction costs. Consequently, firms serve internalize markets, increasing thereby markets economic allocative efficiency. The level of transaction costs provides the source of economic justification for the existence of firms (Gilroy, 1993: 76-77).

As is now well known, Coase's article has sparked off a very large amount of literature. Williamson (1975, 1986) and Buckley and Casson (1976) are some of the researchers who have comprehensive studies owing much to Coase's approach.

Williamson (1986:174-91) identifies the transaction cost approach with his specific variant, the "markets and hierarchies" approach. For Williamson, whereas market transactions involve exchange between autonomous economic entities, hierarchical transactions are ones for which a single administrative entity spans both sides of the transaction, some from subordination prevails, and, typically, consolidated ownership obtains (Williamson, 1975: xi). There are three main factors, which are namely; bounded rationality (cognitive and language limits on "individuals" ability to process and act on information), opportunism (self-interest seeking with cleverness) and asset specificity (specialization of assets with respect to use or user) give rise to high market

transaction costs, such as the costs of searching, contracting, negotiating and policy agreements. These costs can be reduced if the market is superseded by a hierarchical structure, such as the firm. The existence of firms can thus result in decreased transaction costs.

Williamson argues that his version of transaction cost economics helps account for the existence of the multinational and he emphasizes asset specificity as a critical determinant (Kay, 1991:147) and if any three conditions are not met in a given transactional situation, then the market mechanism can relocate resources effectively. Williamson applies his framework to the evolution of both strategies (such as vertical integration and multinational enterprise) and structures (notably the evolution of the Multidivisional –M form- corporation⁸) (Kay, 1989: 144).

On the other hand, Rugman (1981) explicitly builds on Williamson's "markets and hierarchies" approach as a framework for analyzing the existence of multinationals. Rugman defines internalization as the process of making a market within a firm in which: "internal prices (or transfer prices) of the firm lubricate the organization and permit the internal market to function as efficiently as a potential (but unrealized) regular market" (Rugman, 1981:28).

The *transaction costs*/internalization theory has been developed independently by McManus (1972) and Buckley and Casson (1976), who also focused specifically on the TNCs. Hennart (1982), Teece (1981, 1982) and Rugman (1981,1996) are also major contributors to this theory. This theory argues that transaction cost theory constitutes a general theory of economic organization which can explain the choice between hierarchical co-ordination and other forms

⁸ Williamson defines the Multidivisional structure like that; Multidivisional structure illustrates the proposition that the system cannot be derived from the parts; the system is an independent framework in which the parts are placed (Williamson, 1975:132) and he summarizes the characteristics and advantages of M-form in the Williamson (1970: 120-121).

of organization, such as spot markets and contracts, and hence provides a key element in understanding the reasons for the existence and the development of TNEs (Hennart, 1991:81). The main claim is that *the use of market alternatives to FDI, such as licensing, can result in excessive transaction costs due to the “public goods” nature of a number of intangible assets, such as knowledge, managerial skills and technology, and the associated appropriability problems.*

According to Buckley and Casson, existing theories of production and trade were unable to explain or predict the postwar growth of TNEs and they add *“previous theories of the TNE have attempted to replace the orthodox theory either by relaxing profit-maximization to allow for the pursuit of alternative managerial goals, or by relaxing perfect competition to allow for the exercise of monopoly or oligopoly power”* (Buckley and Casson, 1976:32). Their theory depends on the assumption of profit-maximization and four main groups of factors are relevant to the internalization decision: The first and the most emphasized factor is the *industry-specific factors* related to the nature of the product and markets, and lead to the internalization of markets for intermediate products and thus to vertical integration. Second one is the *region-specific factors*, and third one is the *nation-specific factors*, and the last one is the *firm-specific factors*, which reflect the firm’s ability to organize and manage internal markets efficiently. The main explanations of their theory mainly emphasize industry-specific factors. All these factors suggest strong reasons for internalizing markets for intermediate products.

Buckley and Casson also explored ;

- *the link between internalization of markets and the internationalization of the firm:* They argue that the location strategy of a vertically integrated firm is determined mainly by the interplay of comparative advantage, barriers to trade, and regional incentives to internalize; the firm will be

multinational whenever these factors make it optimal to locate different stages of production in different nations. Knowledge marketing can be given an example. *Knowledge is a public good within the firm, and its transmission costs are normally low.* This means that the use of proprietary knowledge is logically an international operation. For similar reasons the search for relevant knowledge in a particular field is also an international operation. The firm thus operates an international intelligence system for the acquisition and collation of basic knowledge relevant to R&D, and for the exploitation of the commercially applicable knowledge generated by R&D.

- *the integration of production, marketing and R&D can be used as the basis for a simple theory of the growth of the firm:* The theory predicts that the more research-intensive firms will exhibit higher rates of growth and profitability, and will be more multinational than the average.
- *a comparative dynamic analysis of the growth of the multinationality, in terms of changing tastes and technologies acting on the incentive to internalize:* it is argued that industry-specific factors have predominated in the growth of TNEs. The characteristics of TNEs are thus attributable not to multinationality per se, but to factors, which govern internalization in the industries in which they operate (Buckley and Casson, 1976; Hennart, 1991; Ietto-Gillies: 1992).

Transaction cost researchers have mostly been concerned with factors that determine market transactions, and have built a theory of the TNE from differences in their level of across transactions (and, at a higher level of aggregation, industries) up to now. These scholars have begun to analyze factors that lead to differences across activities in the internal organization costs experienced by TNEs. A complete theory of TNE, which requires the simultaneous consideration of both types of costs, *market transaction costs* as

well as *internal organization costs*, is slowly emerging, providing a rich set of insights and testable propositions that will advance theory, policy and practice.

All these theories mentioned up to here, are the extensions of Hymer's conceptualization for FDI. But, by the 1980s, a different approach developed by Dunning in the direction of reorganization and redefinition of these theories and constructing a general framework for them.

II.I.III. The Eclectic Paradigm

A synthesis of monopoly and internalization/transaction costs tradition has been offered by Dunning's (1981, 1994) "eclectic paradigm". In eclectic paradigm ownership advantages and internalization of market transactions are the reasons for TNCs as well as "locational factors", namely factors specific to "host" country. Indeed, Dunning's (1958) early work on the TNC explained US TNCs' activities in Europe in terms of such locational factors. The role of such factors has received little attention from other authors (except Vernon and Buckley and Casson), partly owing to the belief that locational differences between developed countries are of no importance. The eclectic paradigm, unlike the other theories mentioned above, is accepted *a general framework for* (not a TNE theory *per se*, but rather of) *the activities of enterprises engaging in cross-border trade activities*.

According to Dunning (2000:163), "...geography and industrial composition of foreign production undertaken by TNEs is determined by the interaction of three sets of interdependent variables –which themselves, comprise the components of three sub-paradigms: ownership, location and internalization". A firm's *ownership advantage* could be a product or a production process to which other firms do not access, such as patent, blueprint, or trade secret. It could also

be intangible, like a trademark or reputation for quality. Whatever its form, the ownership advantage confers some valuable market power and cost advantage on the firm to outweigh the disadvantages of doing business abroad (Dunning, 1994:81). Property rights and/or intangible asset advantage (OA) and advantages of common governance, that is, of organizing OA with complementary assets can be mentioned as important topics for ownership advantages.

In addition, the foreign market must offer a *location advantage* that makes it profitable to produce the product in the foreign country rather than simply produce it at home and export it to the foreign market (Dunning, 1994:81). Although tariffs, quotas, transport costs, and cheap factor prices are the most obvious sources of location advantages, factors such as access to customers can also be important.

Finally, the TNE must have an *internalization advantage*. This condition is the most abstract of the three. If company has a product or production process and if, due to tariffs and transport costs, it is advantageous to produce the product abroad rather than export it; it is still not obvious that the company should set up a foreign subsidiary. Reasons referred to as internalization advantage: that is, the product or process is exploited internally within the firm rather than externalize it (Dunning, 1994:81).

As the world economic scenario has changed, and as the international production by TNEs has grown new explanations of the phenomena have been put forward at the last two decades. Dunning emphasizes the requirement of updating studies especially on ownership and location specific advantages of the eclectic paradigm in his later studies. According to him there is no need to update the internalization theory of the paradigm, because it has provided the dominant explanation over the past decade. "..... the eclectic paradigm

primarily addressed static and efficiency issues, but more recently has given attention to the dynamic competitiveness and locational strategy of firms, and particularly the path dependency of the upgrading of their core competencies” (Dunning, 2000:167).

Because, markets have become more liberalized, and wealth-creating activities have become more knowledge intensive, the emphasis is more on capabilities to access and organize knowledge intensive assets from through out the world and to integrate these, not only with their existing competitive advantages, but with those of other firms engaging in complementary value-added activities. Hence, the emergence of alliance capitalism, and the need of firms to undertake FDI to protect, or augment, as well as to exploit, their existence ownership specific advantages. Hence, too, the growing importance of transnationality, per se, as an intangible asset in its own right.

On the other hand, according to Dunning, new researches realized in the last two decades emphasize the new locational variables; for example, exchange rate and political risks, the regulations and policies of supra-national entities,⁹ inter-country cultural differences; and give different value other variables common both to domestic and international locational choices.¹⁰ These add-on or re-valued variables should be accommodated to the analytical structure of ownership, location and internalization (OLI) paradigm.

Actually, as Dunning explains there are some changes directly affected foreign activities of multinational corporations in the world economy over the two

⁹ See particularly the impact of WTO agreements and dispute settlements on the locational decisions of MNEs, as documented by Brewer and Young (1999).

¹⁰ Notably, wage levels, demand patterns, policy related variables, supply capabilities and infrastructure.

decades. These changes and effects on TNCs will be examined in detail in the next section.

II.II. NEW APPROACHES TO THE EXPLANATIONS OF FDI

The 1990s were the years in which radical changes have occurred in the world order called as “globalization”. Despite the increasing volume of theory and research on globalization there are still those who claim that the phenomenon is not new, very much exaggerated or even that it is a myth (for example, Hirst and Thompson (1996) Weiss (1996), etc.). No matter that is namely “globalization or not”, but, it is undeniable that there are striking changes in the world namely in economic, social and spatial aspects.

A new economy has emerged in the last two decades on a worldwide scale. Castells (1996) calls it “informational and global” to identify its fundamental distinctive features and to emphasize their interrelation. It is *informational*, because the productivity and competitiveness of units or agents in this economy (be it firms, regions or nations) fundamentally depended upon their capacity to generate, process, and apply efficiently knowledge-based information. It is *global*, because the core activities of production, consumption, and circulation, as well as their components (capital, labor, raw materials, management, information, technology, markets) are organized on a global scale, either directly or through a network of linkages between economic agents. It is *informational and global* because, under the new historical conditions, productivity is generated through and competition is played out in a global network of interaction. And it has emerged in the last quarter of twentieth century because of the Information Technology Revolution provides an indispensable, material basis for such a new economy. It is the historical linkage between the knowledge-information base of the economy, its global reach, and the

Information Technology Revolution that gives birth to a new, distinctive economic system (Castells, 1996: 67).

The changes were expressed in the altered structure of the world economy and also assumed forms specific to particular places. Certain of these changes marked by "Information Technology Revolution" are by now familiar: "world without borders", pointing out the advance in the overcoming of space as barrier, "shrinking space", "time-space compression", or as a shift from "space of places" to the "space of flows" (Castells; 1996: 367), increase in "finance and people mobility" and "cultural exchange" etc. by accepting the changes role of nation-state.

In this "competitive" and "global world market", all economic activities are realized more freely -like movement in borderless space (Castells, 1996:283). With the establishment of new economic organizations, new networks emerged and the role of nation-state has changed. The world has become as "flow of space" because cross-border flows of capital, products, people and money is available, are determining the new economic space (Harvey, 1989:213).

The changing dynamics of the global economy dictates that TNCs have to adjust their strategy and structure to better fit with the competitive environment. Especially in the late twentieth century, increasingly rapid technological innovation and diffusion are fundamentally altering the nature of global competition, strategy and organization.

TNCs are generally capitalist enterprises (a small number of TNCs are state-owned enterprises but they are in the minority) and they must behave according to the basic "rules" of capitalism. The most fundamental of these is the "profit maximization" which is at the core of all capitalist activity.

Undoubtedly, a capitalist market economy is an intensely competitive economy. One firm's profit may be another firm's loss unless the whole system is growing sufficiently strongly to permit all firms to make a profit. Even so, some will make a larger profit than others. A key feature of today's world, of course, is that *competition is increasingly global* in its extent. Firms are no longer competing largely with national rivals but with firms in the global economic market.

Redefinition of TNCs:

A major ingredient of the "globalization" scenario outlined by Dicken (1998), is the idea that many conceptual redefinitions for TNCs;

- TNCs are becoming "global corporations"
- TNCs are becoming "denationalized" and "stateless",
- TNCs are becoming "placeless" (Dicken, 1998:193),
- TNCs are becoming locally embedded (Phelps, 1997:54).

The idea that TNCs are **global corporations**, whose ways of doing things have converged towards a single globally integrated model. The pressures of operating in a globally competitive environment, it is argued that, are creating a uniformity of strategy and structure among TNCs. All TNCs are moving along the same path. In so doing, it is argued, TNCs lose all identification with, or allegiance to, particular countries and communities. They become, in effect, **placeless**. Moreover, according to both Reich and Ohmae, TNCs have become – or becoming- **denationalized**. In Ohmae's (1990:94) research *"Before national identity, before local affiliation, before German ego or Italian ego or Japanese ego –before any of this comes the commitment to a single, unified global mission... Country of origin does not matter. Location of headquarters does not matter. The products for which you are responsible and the company you serve have become denationalized."*

All these arguments are still discussed and many researches/empirical studies challenge these conditions. For example, according to Dicken (1998:193), TNCs are not global corporations, and they are strongly affected by specific national and local environments. The TNC's home environment remains fundamentally important to how it operates, notwithstanding geographical extensiveness of its activities. All TNCs have an identifiable home base and every TNC is embedded within its domestic environment. Undoubtedly, the more geographical extensive its operations the more likely it will be to take on some characteristics of its host environments. But even where there is substantial local adaptation and local embeddedness, the influence of the firm's geographical origins remains very strong.

In order to clarify whether the TNCs are global corporations or not, Dicken calculated "*transnationality index*" of world's largest 100 TNCs in 1994. The companies are ranked by their "index of transnationality" which is based upon three indicators: foreign sales, foreign assets and foreign employment. According to Dicken "*if the global corporation hypothesis is valid then it would be expected to find that at least the majority of these largest TNCs have the overwhelming their assets and employment outside their home country*" (Dicken, 1998:195-96). Whereas, only 42 of the 100 companies have an index of greater than 50; a mere 13 have an index greater than 75. Significantly, the 13 most transnational firms originate from small countries. Conversely, the biggest TNCs in terms of total foreign assets all have relatively low transnational index scores. On these measure, therefore, there is a little evidence of TNCs having the share of their activities outside their home countries, which might be expected if they are global firms.

Different empirical analyses of Hu (1992), Ruigrok and Tulder (1995) and etc. reached the similar conclusions with Dicken's analysis. Hu concludes that, *TNC*

is a national corporation with international operations. Thus, despite many decades of international operations, TNCs remain distinctively connected with their home base. Ford is still an American company, ICI a British Company, Siemens a German company (Hu, 1992:121). Social, cultural, political and economic characteristics of national home base play dominant part. This is not to claim that TNCs from a particular national origin are identical. Within any national situation there will be distinctive corporate cultures, arising from the firm's specific corporate history. However, there are generally greater similarities than differences between firms from the same national base.

Pauly and Reich (1997) mentioned in their empirical research one aspect of the "TNCs are not placeless" argument is that the conditions in which firms develop in their home countries continue to exert a very strong influence on their subsequent behavior when operating outside their home country (Pauly and Reich, 1997:25). The other aspect of the argument that "geography matters" concerns the extent to which firms operating in different countries take on some of the characteristics of those host environments. Although the influence of the home base is highly significant, this does not mean that it is totally deterministic of how firms operate abroad. For a whole variety of reasons foreign firms invariably have to adopt some of their domestic practices their local conditions. According to Dicken (1998:199), Pauly and Reich (1997:25) are probably correct in observing that although TNCs originate from different home bases they *"appear to adopt themselves at the margins but not much at the core"*.

Actually, mostly emphasized discussion will be here is "TNC are becoming locally embedded" which is the main concern of this thesis. Although the term "mobile investment" is suggestive of the idea that transnational manufacturing investments are footloose and not tied to particular locations and regions, the vast bulk of multinational investment is, to an extent, tied to particular locations

and regions. TNCs invest large amount of time, money and human resources in establishing and maintaining production at particular locations, so there will be non-recoverable sunk costs in these locations. To the extent that firms become attached to, or embedded in, particular locations in this way.

II.III. A NEW PERSPECTIVE TO TNCs' LOCATIONAL PREFERENCES: "LOCAL EMBEDDEDNESS"

The notion of embeddedness is a theoretical construct that has interested scholars from several different disciplines at the last decades. Uzzi (1997:1) argued that research into embeddedness can help to advance understanding of how social structure affects economic life. He referred to embeddedness as "a **puzzle** that, once understood, can furnish tools explicating not only organizational puzzles but market processes" (Uzzi, 1997:22). For this reason, research on the embeddedness is an exiting concept in sociology and economics because it advances our understanding of how social structure affects economic life. The term "embeddedness" has taken many meanings and uses, but at the heart of the term of embeddedness is the emphasis laid on the necessity of social relations to all economic transactions.

At the beginning of this section the evolution of the embeddedness concept is held from historical perspective, the importance of space in this concept and then local embeddedness of TNCs are mentioned in that order.

II.III.I. Historical evolution of the embeddedness concept

This section begins by highlighting the historical evolution of the embeddedness construct and review studies that give shape to current conceptualization of embeddedness. There are three important turning points in the historical

evolution of the embeddedness concept. The first one is the Karl Polanyi, who known as the father of embeddedness concept and the second one is the Granovetter's contribution in this conceptualization. The third and the last one is the Zukin and DiMaggio's studies on the embeddedness.

II.III. I.I. Karl Polanyi

Actually, Polanyi (1944) introduced the term "embeddedness" in *The Great Transformation* and is typically presented as the originator of the embeddedness concept (Barber, 1995; Granovetter, 1985; Portes and Sensenbrenner, 1993; Zukin & DiMaggio, 1990; Dacin et al., 1999, Hess, 2004). Arising from a strong dissatisfaction with the absolutisation of the market and its underlying rationale of self regulation and economising behaviour, which dominated the economic science at his time as well as political discourses and ideologies, he sought to demonstrate that the economy is enmeshed in institutions, both economic and non-economic (Polanyi, 1992: 34). He called this view a substantive definition of economics, as opposed to the formal definition supported by economists and market ideologists.

Polanyi (1944) purified three different types of economic exchange in societies with reference to the degree of separation from non-economic institutions. Whereas non-market economies, with their forms of **reciprocal** and **redistributive exchange**, were constituted on the basis of shared values and norms that had their roots in social and cultural bonds rather than monetary goals, the society based on **market exchange** implicated underlying values and norms that only consider price, and no other obligations (Hess, 2004). Therefore, Polanyi conceived market economies as disembedded from the social-structural and cultural- structural elements of society.

Furthermore, Polanyi (1944) argues that modern market economies are not only disembedded, but that, “instead of economy being embedded in social relations, social relations are embedded in the economic system” (Polanyi, 1944: 57). On the other hand, historically preceding economies were embedded in society and its social and cultural foundations. In other words, unlike in earlier societies, cultural and social elements have become economised and monetarised, assuming labour to be a commodity.

According to the Barber (1995), above quoted statement by Polanyi is one of only two occasions where he actually uses the term ‘embeddedness’, and gives a good indication of whom he considers to be embedded in what. On the second occasion, he writes about economic exchange in systems based on reciprocity, where acts of barter are embedded in long range relations implying trust and confidence (Polanyi, 1944: 61). Actually, this statement might be closer to the notion of embeddedness as it is used in most of the recent academic literature, concentrating on personal ties within networks, but does not represent the central argument in Polanyi’s analysis (Hess, 2004). According to him, “Superficially then it might seem as if the forms of integration [reciprocity, redistribution and exchange] merely reflected aggregates of the respective forms of individual behavior... (Polanyi, 1992: 35). But, he argues, “in any given case, the societal effects of individual behaviour depend on the presence of definite institutional conditions ...” (Polanyi, 1992: 36). Clearly, the central issue is the ‘institutionalisation’ of economic processes or “the ‘societal’ embeddedness of functionally differentiated institutional orders in a complex, de-centred society (Jessop, 2001: 224).

When the emphasis on spatial dimension of embeddedness is analysed it can be said that Polanyi did not consider about space; i.e. geographical (pre)-conditions do not have any explanatory power. Actually, the spatial configuration of the

three distinctive forms of economic exchange is limited by only to look “local scale” is only seems as main ‘platform’ for describing pre-modern societies and reciprocal exchanges between households and families (Hess, 2004:8). Global forms of exchange like “kinship”, “ethnicity” and today represented in “transnational networks” did not be considered by him, even though some of the authors argue that Polanyi did not ignore the process of economic internationalisation¹¹.

II.III. I. II. Granovetter’s embeddedness

After Polanyi, Granovetter is another important author who has to be mentioned while discussing on the conceptualization of embeddedness. Granovetter’s article “The Problem of Embeddedness” in America Journal of Sociology in 1985 is very crucial turning point in this concept. Besides, discussion on market hierarchy issues related to embeddedness, he gives detail on network paradigm in this article.

Granovetter’s main concerns is to avoid both undersocialized views of economic action, as in neo-classical economics, and over-socialized views in sociology, for which he blames Talcott Parsons’ theory¹² of structural functionalism as being

¹¹ According to the Hess (2004:5) “this was an important feature of the market economy. However, internationalisation was seen through the lens of international trade and, to some extent, international investment by ‘haute finance’. Forms of networked globalisation through cross border firm expansion – although prevalent at Polanyi’s time and implicated in his analysis of ‘haute finance’ – did not play a major role in his conceptualisation of the (embedded) economy, according to his institutional-structural, society-centred approach.....”

¹² Talcott Parsons is considered to be the most contemporary of the classical theorists. He brought contemporary theory to the United States through his book *The Structure of Social Action* (1937). Parson's main interest was integrating the social and personality systems, in which he developed a clear sense of the levels of social analysis through four action systems: behavioral organism, personality, social system, and cultural system. His work has been marred by some basic confusion, specifically the mix of action theory and structural functionalism. In the 1950's Parson's concepts of action theory began to disappear from his theory. (<http://www.radford.edu/~junnever/theory/parsons.htm>, 21.12.2004).

partially responsible (Hess, 2004). Granovetter aims to put the concept of embeddedness into its right place by partly criticizing, partly developing the mentioned ideas above: "A fruitful analysis of human action requires us to avoid the atomization implicit in the theoretical extremes of under and oversocialized conceptions. Actors do not behave or decide as atoms outside a social context, nor do they adhere slavishly to a script written for them by the particular intersection of social categories that they happen to occupy. Their attempts at purposive action are instead embedded in concrete, ongoing systems of social relations" (Granovetter 1985:487). He argues that the level of embeddedness in pre-capitalist societies is lower, while in market economies higher than is suggested by the strong embeddedness position. Then, Granovetter says that the level of the social embeddedness of the economy did not change fundamentally with the formation of modern capitalism. Yet he has a totally different argument when saying that the effect of social networks upon economic actions, institutions and outcomes must be taken into account during the analysis of any economic system (Orban, 2000).

There are some differences between Granovetter's and Polanyi's studies in the conceptualization of embeddedness. Like many authors, Granovetter finds Polanyi's argument on the distinction between embedded (ancient) non-market economies and disembedded modern market economies too crude (Hess, 2004:170). Another difference between them is the shift in the analytical focus, away from fairly abstract economies and societies towards the analytical scales of actors and networks of interpersonal relationships. By "scaling down" the embeddedness concepts towards an emphasis on individual and collective agency (Hess, 2004:170), a new access to embeddedness is presented that "stresses the role of concrete personal relations and structures (or "networks") of such relations in generating trust and discouraging malfeasance" (Granovetter, 1985:490). The emphasis on the notions of "concrete personal

relations” and the central element of “trust” is very crucial, because these notions imply an understanding of actors as being individuals. Actually, there is a confusion in understanding of “actor”, because in other parts of the work of Granovetter, he mentions firms as actors also. An answer to that lies in Granovetter’s (1992) distinction between relational and structural embeddedness (Winter, 2003; Dacin et al., 1999; Hess, 2004), where the former describes the nature of quality of dyadic relations between actors, while the latter refers to the network structure of relationships between a number of actors. As quoted in Hess (2004:171) Emirbayer and Godwin (1994) clarify that like below:

“Social structure, in this view, is ‘regularities in the patterns of relations among concrete entities ... A social network is one of many possible sets of social relations of a specific content – for example communicative, power, effectual, or exchange relations – that link actors within a larger social structure (or network of networks). The relevant unit of analysis need not to be an individual person, but can also be a group, an organization, or, indeed, an entire ‘society’ (i.e., a territorially bounded network of social relations); any entity that is connected to a network of other such entities will do. ..Individual and group behavior, in this view, cannot be fully understood independently of one another” (Emirbayer and Goodwin, 1994: 1417).

As a similar point, on the other hand, between Polanyi’s and Granovetter’s works is there is no given a priori on spatial scale of embeddedness analysis. Although it is obvious that in “Transformation”, the main frame of reference is the territorially bounded society, whereas Granovetter does not refer to such a “societal” frame at all, bounded or not to a particular territory (Dacin et al., 1999; Sandberg, 2003; Hess, 2004).

Most of researchers argue that, although articulation of the existence of embedded relations and social structures in the context of market societies is the major contribution of Granovetter’s work, he focused too narrowly on “ongoing social relations” and neglects the issue of actors and social networks being part of a larger institutional structure in conceptualization of embeddedness (Hess,

2004; DiMaggio, 1990, 1994; Zukin and DiMaggio, 1990; Winter, 2003) (Table II.I). Hence, new developments on the conceptualization of embeddedness are realized which will be given below.

Table II.I. Who is embedded in what? Different views on embeddedness

	Who?	In What?	Geographical Scale
Polanyi's Great Transformation	"The Economy" systems of exchange	"Society", social and cultural structures	No particular scale, but emphasis on the nation-state
Business Systems Approach	Firms	Institutional and regulatory frameworks	Nation-state, "home territory"
New Economic sociology	Economic behaviour, individuals and firms	Networks of ongoing social (inter-personal) relations	No particular scale
Organization and business studies	Firms, networks	Time, space, social structures, markets, technological systems, political systems	No particular scale
Economic geography	Firms	Networks and institutional settings	Local / Regional

Source: Hess, 2004:173.

II.III.II. The new developments on the conceptualization of embeddedness

After Polanyi and Granovetter, another important contribution on the conceptualization of embeddedness comes from DiMaggio and Zukin. DiMaggio (1990, 1994), by resembling to Polanyi's "societal" embeddedness, has

argued that economic action is not only embedded in the social structure but also in culture. His studies with Zukin widen the Granovetter's (1985) conceptualization of embeddedness that refers to the on-going contextualization of economic exchange in social structure by proposing that embeddedness refers to the contingent nature of economic activity on cognition, culture, social structures, and political institutions (Uzzi, 1997; Dacin et. al., 1999). Actually, this is one of the best known categorisations developed for understanding of embeddedness. On the individual level, **Cognitive embeddedness** refers to the regularities of mental processes that limit the exercise of economic reasoning. This argument supports the position against an under-socialised view and its related *homo economicus* utopia of purely rational choice, and instead emphasises – on an organisational level – the notion of bounded rationality (Hess, 2004). Rational economic behaviour is not only limited by a person's cognitive constraints, but also by shared collective understandings in shaping economic strategies and goals, i.e. **cultural embeddedness** (Liu, 2000; Sit and Liu, 2000). The Granovetterian notion of **structural embeddedness** as contextualisation of economic exchange in ongoing interpersonal relations is adopted in its original sense as one of the four categories developed by Zukin and DiMaggio. Finally, they distinguish a **political form of embeddedness** which highlights the institutional (political, legal, etc.) framework of economic action and stresses the struggle for power that involves economic actors and nonmarket institutions alike (Liu, 2000; Sit and Liu, 2000).

According to Hess (2004), Zukin and DiMaggio's classification is very useful in breaking down different aspects of the "social" into different mechanisms for analytical purposes and, at its time, certainly provided the most comprehensive, yet coherent, overview of different kinds of embeddedness. The classifications and typologies even more complex and even confusing as subsequent literature has added more forms of embeddedness. As quoted in Sandberg (2003:3) Miller

(1996); Raub (1996), (1998); Rooks et al. (2000) used additional types of embeddedness namely temporal, network and institutional embeddedness.

Another crucial contribution on the conceptualization of embeddedness comes from Uzzi (1997). The most important contribution of Uzzi to the embeddedness literature is his flesh out the concept of embeddedness and its implication for the competitive advantage of network organizations, and determining the role of trust in embeddedness. Uzzi (1997) expresses a need for concrete accounts of the effect of embeddedness, and the need of more research on how social structure facilitates or derails economic action. He identifies empirically grounded components of embedded relationships, and he explicates the devices by which structural embeddedness shapes organizational and economic outcomes (Sandberg, 2003:5). In his study he aims “to develop one of perhaps multiple specifications of embeddedness, a concept that has been used to refer broadly to the contingent nature of economic action with respect to cognition, social structure, institutions and culture (Uzzi, 1997:35). As mentioned above, Zukin and DiMaggio (1990) classified embeddedness into four forms: structural, cognitive, political and cultural. According to Uzzi, the last three types of embeddedness primarily reflect social constructionist perspectives on embeddedness, whereas structural embeddedness is principally concerned with how the quality and network architecture of material exchange relationships influence economic activity (Uzzi, 1997:36). So, he limits his analysis to the concept of structural embeddedness.

Uzzi suggests that structural embeddedness is a logic of exchange that promotes economies of time, integrative agreements, Pareto improvements in allocative efficiency, and complex adaptation. He formulates arguments that attempt to flesh out the concept of embeddedness and its implication for the competitive advantage of network organizations. Uzzi’s field survey, where the unit of

analysis is the interfirm relationships, results in a table, showing “evidence for features and functions of embeddedness” (Uzzi, 1997:42). The features and functions of embedded ties where: Personal relationships matters; trust is a major aspect; reciprocity and favours are important; thick information sharing; joint problem solving; concentrated exchange with partner matters; promotes shared investments; shortens response time to market; promotes innovation; strong incentives for quality; increases fit with market demands.

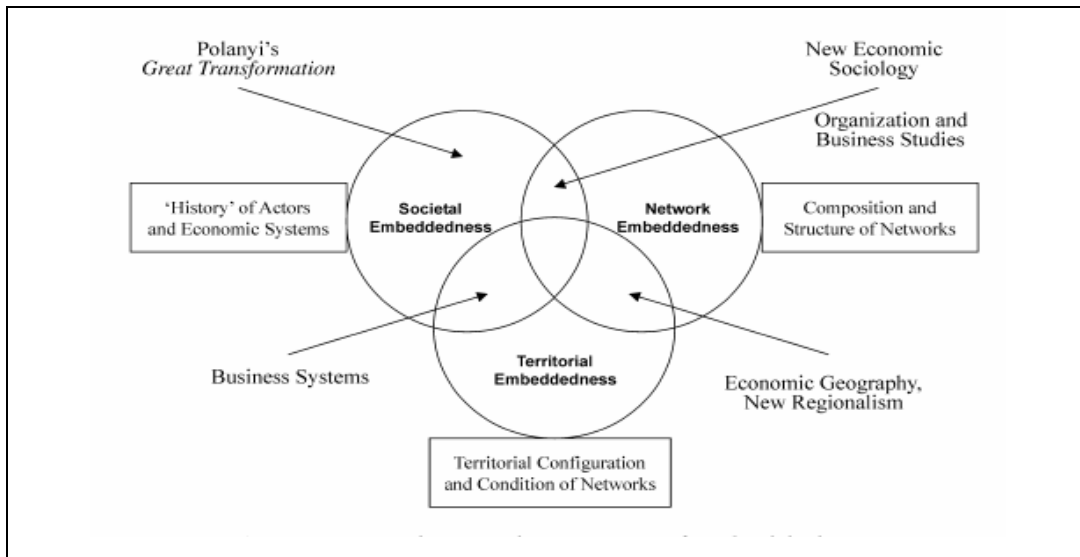
Another important contribution of Uzzi (1996; 1997) is that the conceptual discussion on “over-embeddedness” (Sofer and Schnell, 2002). This concept is related by the degree of embeddedness and lock-in effects. He demonstrates that close social relations of suppliers with their customers are only positive to a certain extent. As expected, the study shows that close, long-term customer relations are usually advantageous because they enable both customers and suppliers to benefit from learning processes and to react quickly to market changes. Close customer relations thus enhance an individual supplier’s probability to survive in the market. But, when other suppliers are also closely linked with the same customers outcome changes. The more a group of suppliers is strongly embedded with the same set of customers, the more likely are firms to fail (Uzzi 1996). Kern (1996) has suggested that the threat of technological lock-in and collective failure within a production network is related to the role of trust in social relations. Although trust provides an important basis for the development of long-term network relations (Granovetter, 1985), the development of too much trust can cause structures of blind confidence and gullibility to spread within a network. As a result, traditional problem-solving strategies, including those that are in need of change, may remain unaltered. The optimal level of embeddedness is an intermediate range that is neither too tight to fragment relations or too loose to form relations (Uzzi, 1997). The number of constituents also influences the

degree of embeddedness. The sociological approach integrates effectiveness and efficiency while transaction cost economics explains just the efficiency of organizations.

Another classification comes from organization and business literature; Halinen and Törnroos (1998) propose three perspectives (actor-network, dyad-network, and micronet-macronet), two dimensions (horizontal and vertical) and six types of embeddedness: social, political, market, technological, temporal and spatial. Because of the differences from other embedded classifications, the examples of market, technological, temporal and spatial embeddedness are cases in point. They explain the **market embeddedness** like that; each business actor is embedded in a specific market defined in terms of the products and services offered, the clientele served, the functions performed and the time and territory encompassed by the company's operations. The embeddedness of business activities in various technological systems are defined as **technological embeddedness** by Halinen and Törnroos (1998). According to them, companies depend on specific processes and product technologies, as well as on such infrastructural technology as referring to the general technology level of a country e.g. its transportation and information systems. Actually, over the past decade companies have been showing an increasing tendency to enter various technological networks and strategic alliances with other industrial companies, with research laboratories and institutes and with universities and science parks (see Halkansson, 1989; Hagedoorn, 1993). All business activities are budding economic and social systems, so they are essentially linked to time. Time does not only refer to natural or physical time, i.e. to cycles of nature and to metric or absolute time, it is a more complex and varied concept than that. Halinen and Törnroos (1995) suggested with **temporal embeddedness** that; "... It (time) should be viewed multi-dimensionally, and proposed a relational time concept for business studies. This suggests that companies are bound to past, present

and future modes of time. To put it another way: firms, dyads and nets have their own histories during which they have evolved; they are also in the midst of their own present, in which they are currently functioning; and they have objectives and expectations about the future which affect their present decisions and actions. In addition, business networks are embedded in the natural and physical aspects of time as well as in various social time constructs. This means that time is culturally bound; it is connected with various social organizations whereby people acquire their sense of time, and also with individual people, i.e. in the way they view time" (Halinen and Törnroos ,1998: 195).

Spatial embeddedness, on the other hand, emphasises the importance of space and geography in business networks. It refers to the spatial levels of industrial activity within a specific business setting. According to Halinen and Törnroos (1998) this type of embeddedness can be viewed from the location theory perspective, i.e. how business activities are located and organized "on the ground". "Business actors may also be internationally, nationally, regionally and locally embedded in different types of network. A spatio-mental perspective provides yet another angle on spatial embeddedness. This refers to the way human actors understand space and the spatial hierarchy around them" (Halinen and Törnroos (1998:195). There are examples show the way of firms which are spatially embedded in regions, countries and larger regional entities from flexible manufacturing discussions, "new industrial spaces" and the embedded nature of TNCs (see Piore and Sabel, 1984; Storper and Walker, 1989; Malecki, 1992; Amin, 1993; Hess, 2004). Halinen and Törnroos (1998) classification shows the complex and multifaceted environment in which business firms, dyads and nets operate. The suggested types of embeddedness can be used as research approaches (separately or combined), with a view to increasing our understanding of network evolution and change.



Source: Hess, 2004: 176

Figure II.II. Fundamental categories of embeddedness

Simsek et al. (2003) developed a model for embeddedness by using Granovetter's studies and this model consists of three types of embeddedness; structural embeddedness, relational embeddedness and cognitive embeddedness. **Structural embeddedness** describes the network's overall architecture, encompassing the properties of inter-firm ties as a whole. Among the important facets of structural embeddedness is the presence or absence of ties between actors. Variables along these lines include closure, density, connectivity, and hierarchy. **Relational embeddedness** refers to the quality of dyadic exchanges, including the degree to which parties consider one another's needs and goals as well as the behaviours that they exhibit toward one another, such as trust, norms, reputation, sanctions, and obligations. Finally, **cognitive embeddedness** refers to similarity in the representations, interpretations, and systems of meaning among firms. While it is new to the network literature, we include cognitive embeddedness in our model based on related work on industry-level macro-cognitive elements. Here, cognition is treated as a social

phenomenon being shaped by, and shaping, interactions between actors” (Simsek et al., 2003: 430).

II.III.III. Is Location a Matter? Integrating Space Into Embeddedness Studies

In addition to be a matter of social relations, economic action, and hence embeddedness, is inherently spatial (Martin, 1994). For this reason the new economic geography has adopted the concept of embeddedness since the early 1990's, starting with the work of Dicken and Thrift in 1992. According to them, “... Business organizations are produced through a historical process of embedding which involves an interaction between the specific cognitive, cultural, social, political and economic characteristics of a firm's 'home territory'..., those of its geographically dispersed operations and the competitive and technological pressures which impinge upon it” (Dicken and Thrift, 1992: 287).

Actually, this understanding of embeddedness resembles of Polanyi's original idea of 'societal' embeddedness, i.e. the history of economic actors and the cultural imprint of the 'home territory', rather than emphasising only locally 'bounded' economic activities, as in much of the subsequent geographical literature. Therefore it is closer to the original embeddedness conceptualisations.

Parallel to the globalization and new regionalisation discussions, three main arguments are appeared in order to clarify the spatial logic of embeddedness. Firstly, the importance of external economies for localised production systems; secondly, the existence (and its assumed positive impact) of regional cultures and local institutional fabrics, or what has been termed 'institutional thickness' (Amin and Thrift, 1992; MacLeod, 1997); and thirdly, the role of spatial

proximity in creating trust among business partners. The origins of the first one back to Alfred Marshall's ideas (Phelps, 1997:54; Hess, 2004) and has been picked up by the industrial districts literature as well as by Porter's work on clusters. But it is Marshall's notion of "industrial atmosphere" that echoes in the latter two arguments related to local embeddedness (Hess, 2004).

According to Amin and Thrift (1994:14-15), institutional thickness may be broadly interpreted in four dimensions: a strong, obvious institutional presence; high levels of interaction amongst institutions in a local area; development of sharply defined structures of interaction and coalition; and, mutual awareness of being involved in a common enterprise. That means, institutional thickness put emphasis to the social and cultural characteristics for the economic success of the region (Phillips and Yeung, 2003; Pavlinek and Smith, 1998; Hess, 2004; Oerlemans et al., 2000). Strong existence of these characteristics helps to creation of local embeddedness of an industry, a firm and etc. Actually, according to the study of Saxenian in 1994, the institutional and cultural characteristics of different localities robustly affect economic success of these localities. On the other hand, in post-fordist type of production, flexible inter-firm relations and so "trust" among them have no doubt gained importance. The literature on embeddedness stresses the central role of concrete personal relations and networks of relations to generate trust (Phillips and Yeung, 2003; Dayasindhu, 2002; Vellinga, 2000; Bathelt, 2003; Bandelj, 2002; Fletcher and Barrett, 2001; Freel, 2002; Oerlemans et al., 2001; Koschatzsky and Zenker, 1999; Phelps et al., 2003; Sandberg, 2003; Jack and Anderson, 2002; Simsek et al., 2003; Asheim, 2002; Orban, 2000; Winter, 2003). From this point of view, proponents of the local embeddedness literature have concluded that spatial proximity facilitates relationships based on trust, since "trust-building is usually difficult to achieve over long distances because of the need for face-to-face interaction ..." (Staber, 1996: 156). Similarly, Amin and Thrift (1994: 15) state that (local) institutional

thickness nourishes relations of trust. Furthermore, as Giddens (1990: 33) suggests, trust is related to absence in time and space, since there is no need for trust if someone's activities are constantly visible.

The study of Hess (2004) "Spatial Relationships? Towards a Re-Conceptualization of Embeddedness" is very useful in order to clarify the role of space in conceptualization of embeddedness. He determines three types of embeddedness, which are closely knitted to each other; **societal embeddedness**, **network embeddedness** and **territorial embeddedness**. Here, he prefers using "territory" instead of local and/or regional, since he thinks that territory includes both of them in its content. **Societal embeddedness** ".....signifies the importance of where an actor comes from, what is his societal background (cultural, political etc.) or –to use a "biologistic" metaphor- "genetic code", influencing and shaping the action of individuals and collective actors within their respective societies and outside it" (Hess, 2004:176). This type is may be the one most closely linked with the original idea of embeddedness. **Network embeddedness** describes the network of actors a person or organisation is involved in, i.e. the structure of relationships among a set of individuals and organisations regardless of their country of origin or local anchoring in particular places. Network embeddedness can be regarded as the product of a process of trust building between network agents, which is important for successful and stable relationships (Hess, 2004). **Territorial embeddedness**, on the other hand, considers the extent to which an actor is "anchored" in particular territories and places. "... Economic actors do not merely locate in particular places. They may become embedded there in the sense that they **absorb**, and in some cases become constrained, by the economic activities and social dynamics that already exist in those places. One example here is the way in which the networks of particular firms may take advantage of clusters of small and medium enterprises (with their decisively important social networks and local labour markets) that

pre-date the establishment of subcontracting or subsidiary operations by such firms” (Hess, 2004:177). Additionally, it should be taken into consideration; existing of external firms in particular places might generate a new local or regional network of economic and social relations (with existing firms and newly entered ones). As mentioned in Harrison’s (1992) and Amin and Thrift’s (1994) studies embeddedness may become a key element in regional economic growth and in capturing global opportunities.

The main concern of Hess (2004) is “to create a spatial-temporal concept and to avoid a static view of agency and social structure”; the three proposed categories of embeddedness have to consider developments over time and changes in the spatial configuration of networks on different scales. Because *embeddedness is a dynamic but not static and it refers an on-going process*. He used the metaphor of the “rhizome”, as towards on spatial-temporal conceptualization of embeddedness. The metaphor of rhizome, which is described by post-structuralist philosopher Gilles Deleuze and his co-author Félix Guattari (1976, 1988), as the heterogeneous networks of all kinds. According to them, four important principles a rhizome have; connection and heterogeneity, multiplicity, asignifying rupture, and cartography and decalomania¹³. Hess (2004) argues that three types of embeddedness, mentioned above, should be re-evaluated with reference to these principles, to integrate the spatial-temporal dimension to embeddedness concept¹⁴. When this integration realized, it should be clearly

¹³ **Connection and heterogeneity:** these principles imply that each point can (and has to) be linked to any other point of the network. The different connections may remain independent from each other, i.e. there is an ingenuousness with regard to the nature of these connections. **Multiplicity:** reflects the multi-dimensionality of a rhizome and its processual character. **Asignifying rupture:** a rhizome or network can be broken or a connection within it be destroyed arbitrarily, without doing significant damage to the rest of the rhizome or network structure. **Cartography and decalomania:** “The rhizome is altogether different, a map and not a tracing. [...] The map is open and connectable in all of its dimensions; it is detachable, reversible, susceptible, to constant modification. It can be torn, reversed, adapted to any kind of mouting, reworked by any individual group or social formation” (Deleuze and Guattari, 1988:12).

¹⁴ Societal embeddedness is signified as the “genetic code” of a rhizome or part of it, which can be transmitted via the different connections and links that make up the rhizome. Network actors, be

seen that; it is the simultaneity of societal, network, and territorial embeddedness that shapes networks and the spatial-temporal structures of economic action. Being influenced by their social and cultural heritage, actors engage in a multiplicity of relations with other actors in different places, creating network structures that are discontinually territorial and that can be concluded as **“all three forms of embeddedness are territorialized”** (Hess, 2004: 181).

Actually, whatever the characteristics (or types) of embeddedness, mentioned in this and previous sections, “location” is very important dimension of it. It is impossible to evaluate it, taking apart from the space. As pointed at the beginning of this section “in addition to be a matter of social relations, economic action, and hence embeddedness, is inherently spatial”. From the **“all forms of embeddedness are territorialized”** point of view TNC embeddedness which is the main concern of this thesis will be evaluated in following section.

they individuals or collectives, have a history that shapes their perception, strategies and actions, which therefore are path-dependent. This ‘genetic code’ represents the local/regional/national ‘culture’, the importance of which for economic success is recognised in many studies on different geographical levels, e.g. regarding the ‘local cultures’ of the Silicon Valley, the different ‘cultures’ of national innovation systems or business systems. If actors engage in global production networks, they carry the genetic code with them when going abroad, and at the same time are exposed to the different cultures of their foreign network partners. As a result, heterogeneous as well as hybrid forms of networks may develop, not least due to the principle of asignifying rupture, which transforms the structure of GPN. Network embeddedness is related to the issues of connectivity, heterogeneity, and cartography in this metaphor, and their change and mutability over time. This includes the notion of embedding and disembedding as a process rather than as a spatial and temporal fix und thus leads to a more dynamic understanding of relations within networks. While network embeddedness indeed has an inherent spatial component, due to the concrete location of actors within the network, this spatiality is no precondition for network embeddedness, but rather a descriptive dimension, subject to the ‘cartography’ and ‘decalcomania’ principles outlined above. It is about the connections between heterogeneous actors, regardless of their locations, rather than restricted to only one geographical scale. Territorial embeddedness, on the other hand, can be represented in the “bulbs and tubers” – according to Deleuze’s picture of rhizomes, i.e. the “localised” manifestations of networks or the nodes in global networks, without the danger of scalar dualisms (the global versus the local). Global production networks are by no means deterritorialized, although I have made clear that localisation is not the only spatial logic of embeddedness. In the case of GPN, territorial embeddedness occurs when foreign actors build considerable links to the actors present within the respective host localities. Or, in terms of the rhizome metaphor, “rhizomatics is about lines of flow and flight, processes of territorialization, deterritorialization, and reterritorialization, networks of partial and constantly changing connections” (Thrift, 2000: 716).

II.IV. TNC'S EMBEDDEDNESS

As known globalization brings a dual opposition between “global flows” and “local fixities” (Amin and Thrift, 1997; Dicken et al., 1997; Storper, 1997). It is argued that parallel to these discussions on the dual opposition emerged in globalization process, TNCs pursue different strategies. Local embeddedness of TNCs which give reference to the spatial fixity is one of these strategies.

Actually, how TNCs choose spatial fixity and spatial differentiation initially depend on the degree of their dependence on available local factors (Cox, 1993, 1995, 1997; Amin and Thrift, 1994; Ettliger, 1999; Mair, 1997; Storper, 1992, 1997; Yeung, 1997; Dicken et al. 1994). It is argued that infrastructure, tax benefits, social services provided by national state, and benefits from non-local firm linkages (such as customer linkages and raw material suppliers outside the region) are crucial factors which should not be reduced of TNCs' spatial fixities (Dunning, 1988; 1993; 1997). Therefore, the dependence on local factors should not be reduced to the local scale (Cox, 1995). This dependence on local factors can be created through historical uniqueness and national state policies at the national level as well as through local culture, technology, labour, and local government policies at the local level (Lee, 1998). Because TNCs are too sensitive to these types of attributes for their competitive advantages (Lee, 1999).

One of the earlier studies on the local embeddedness of TNC comes from Dicken, Forsgren and Malmberg in 1994. This study is important in not only describing the evolution of the TNCs and their embeddedness in global perspective but also presenting a general framework for the explanation of the concept. In accordance with them, “... at least in origin, TNCs are locally grown; they develop their roots in the soil in which they were planted. The deeper the roots, the stronger will be the degree of local embeddedness” (Dicken, et al.,

1994). "TNCs affect localities within which they operate. From the perspective of embeddedness, however, one of the major issues would seem to be the extent to which TNCs do, or do not, participate in local economic and social networks" (Dicken et al., 1994).

At this point it is useful to emphasize that there are two important characteristics discussed in the explanation of local embeddedness of TNCs. One of them includes the notion of embedding and disembedding as a *process* rather than as a spatial and temporal fix and thus leads to a more dynamic understanding of relations within networks (Hess, 2003). According to this, TNCs' local embeddedness is a *process of becoming a part of the structure* (Jack and Anderson, 2002: 483). Embedding process is;

- understanding the nature of the structure,
- enacting or re-enacting this structure (Johannisson, 1988 and Weick, 1969 refer to this as "environment") which forges new ties, and
- maintaining both link and the structure.

Embeddedness is an ongoing process continuously shaped by the relations between the different constituents. It not only shapes the agents but is also shaped by them (Jones et al., 1997)

On the other hand, the second important terminology which is useful to explain is Kindleberger's (1969) idea of the "*enclave economy*". The enclave concept refers to a circumstance which overseas-owned plants may provide relatively high levels of direct employment but where the degree of integration with the local economy remains limited (Lovering, 1999). In other words, this term refer to the tendency of FDI to be tightly bound to its home country but only weakly connected to its host economy. According the Phelps and Fuller (2000), the term

might be broadened to include those situations where host country suppliers and institutions are exclusively or largely linked to the specific requirements of a major investor (Phelps and Fuller, 2000). The relation between the ideas of enclave and TNCs local embeddedness might be more clarified with the use of the term “extended enclave” which includes the possibility of involvement a partial connection between TNCs and local economy in the form of, for instance, collaborative R&D linkages, relationships with local suppliers or regular contact with regional development agencies.

Phelps and Fuller (2000) suggest that three different scenarios clarifying the degree of local embeddedness of TNCs by using these concepts discussed above. The term “enclave”, used by Kindleberger (1969) to refer to the tendency of FDI to be tightly bound to its home country but only weakly connected to its host economy, is broadened slightly to include those situations where there connections to host regions through selected local suppliers, the local vocational training system and links with development agencies in their suggestion. “The notion of “*extended enclave*” is useful in pointing to some key aspects of the evolving relationship between TNCs and host region economies” (Phelps and Fuller, 2000:37). Increased levels of local roles and responsibility in the partnership, technology transfer from home to host country, relationships with local actor and regular contact with local institutions are some of these key aspects. The last scenario is “locally embedded TNC” which provides minimum control of foreign partner, high transfer of technology, differential roles and responsibilities of local labour and etc. This typological suggestion will be used in this thesis in analysing the degree of local embeddedness of TNCs, thus will be mentioned again in the methodology section.

The next section will give more detailed information on local embeddedness of TNCs. Some clues will be obtained from this information to clarify the indicators of TNCs' local embeddedness.

II.IV.I. Indicators of TNCs' Local Embeddedness

The spatial fixity of TNCs is tried to be explained from different perspectives in different studies. Some of these study emphasis local characteristics and the others TNCs' characteristics. But, it is not wrong to said that there are three main dimensions in the explanation of local embeddedness of TNCs; the first one is *general characteristics* of both TNC and local structure, the second one is the *managerial control/organizational control* and the last one is the *production structure* (supplying material and labour, technological strategy selected by foreign partner, education and training activities for local labour etc) (Figure II.III). These dimensions will be examined sections below.

II.IV.I.I. General Characteristics

As mentioned above general characteristics of TNCs and local structure is one of the important dimension that give clues for the explanation of local embeddedness of TNCs. General characteristics of local structure which affects the locational preferences of TNCs are still very determinative in the spatial fixity of these corporations. As Dunning (1994) expressed tariffs, quotas, transport costs, and cheap factor prices and factors such as access to customers are some of the most obvious sources of location advantages. When the general characteristics of TNCs are taken into account their age, sector, home country and set-up sunk costs are some of the important indicators for their local embeddedness. Since the importance and affects of general characteristics of local structure on TNC have been mentioned in the Sections II.I and II.II, general characteristics of TNCs will be examined here.

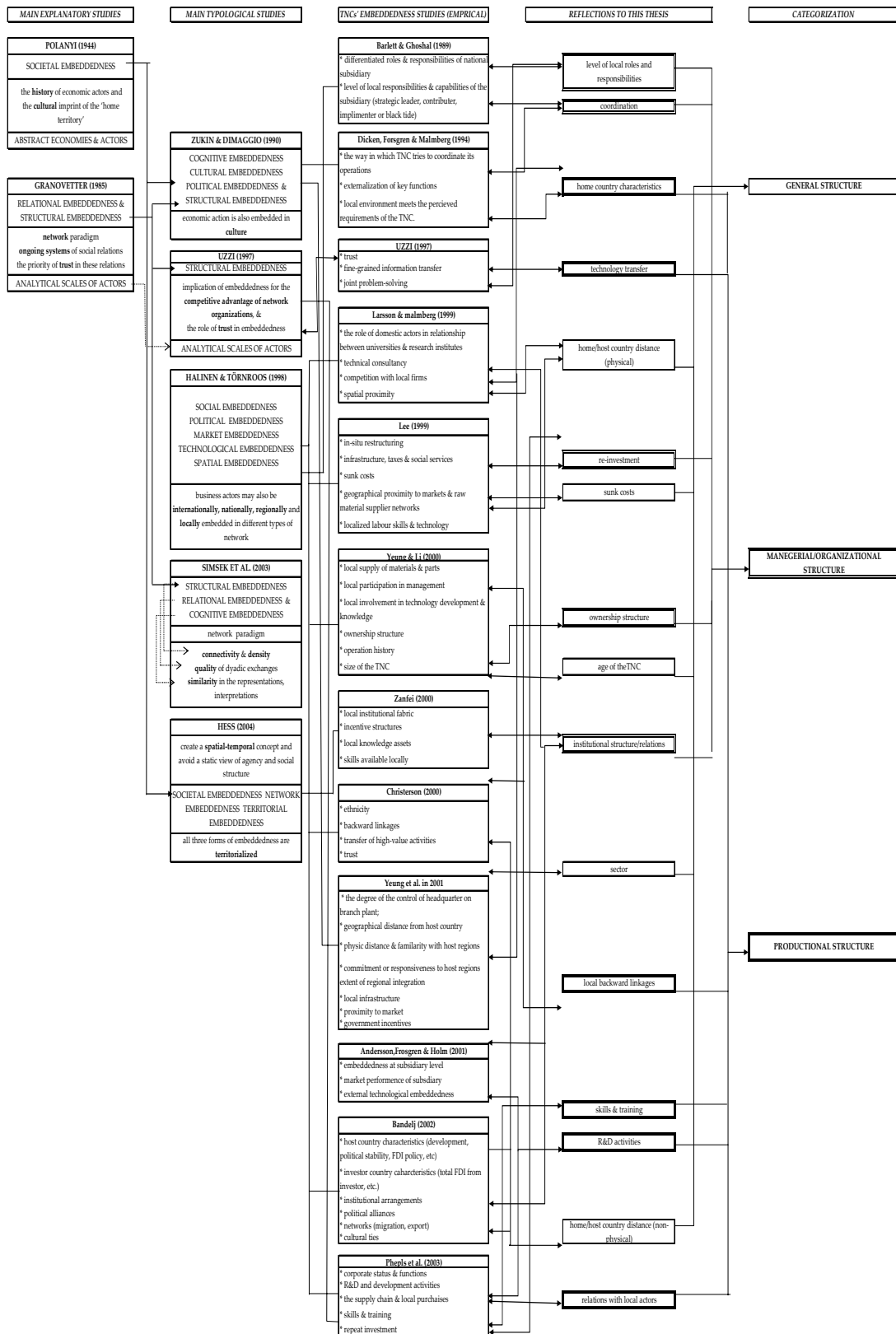


Figure II.III. Main indicators of TNCs' local embeddedness / From theories to empirical study

Embeddedness is a process of becoming a part of the structure (Jack and Anderson, 2002: 483). After selection of the invested location, TNC starts to integrate there. Actually, the earlier studies have shown that the level of TNC embeddedness is generally affected by the length of time the affiliate has been a part of the parent corporation (White and Poynter, 1984; Young et al., 1988; Hakanson, 1995; Ivarsson, 2002). It is clear that the process of corporate integration tends to expand over time. The longer time passed in the location, the more embeddedness TNC there. So, the first issue in the explanation of local embeddedness of TNCs is the *duration* of the firm on the same location.

The second crucial issue is the *sector* of TNC. The sector TNC is engaged is very critical in terms of its level of embeddedness. Parallel to the globalization process there is a tendency from industrial sectors to the service sector all over the world. Actually, researches show that the TNCs in service sector have more possibility to embed in a location than others (Yeung and Li, 2000; Phelps, 1997). The higher sunk costs and training expenditures have to be paid by TNC are effective in that decision. Additionally, service sector has higher turnover than other sectors; so once a TNC invested in that sector it wants to wait and see these turnovers. Thus, it can be said that invested sector type this is another important point for local embeddedness.

Home country / host country distance is the third issue should have to be mentioned in the explanation of local embeddedness of TNCs'. Here "distance" is used both for geographical distance and for familiarity distance. The study of Bandelj (2002), which emphasizes the importance of familiarity between home and host country in the embeddedness process, examines the sources of TNC embeddedness in the case of Central and Eastern Europe. Her analysis strongly indicates the embeddedness of macro economic processes and supports a relational approach for explaining FDI. Different from other studies she

underlines “foreign investors and hosts are not independent but rather situated in different kinds of relational settings, which differentially shape macroeconomic exchange between them” (Bandelj, 2002: 432). Political alliances, migration, trade, cultural, ethnical and historical ties between investors and host have strong effect on the embeddedness of TNC.

On the other hand, when physical distance is analysed, it can be said that, whatever the developments in communication and transportation technologies, physical distance is still important in the local embeddedness process. According to Yeung et al. (2001), geographical distance from host country is a key factor in transaction costs and in establishing control mechanism. “When the parent firm is far away from the host region, it is more likely for the firm to establish a regional headquarter to exercise control over its local subsidiaries and to explore more markets through increased geographical responsibilities” (Yeung et al., 2001: 169).

Another perspective to the importance of spatial proximity comes from Staber (1996). As mentioned previous section, in post-fordist type of production, flexible inter-firm relations and so “*trust*” among them have no doubt gained importance. The literature on embeddedness stresses the central role of concrete personal relations and networks of relations to generate trust (Phillips and Yeung, 2003; Dayasindhu, 2002; Vellinga, 2000 ; Bathelt, 2003; Bandelj, 2002; Fletcher and Barrett, 2001; Freel, 2002; Oerlemans et al., 2001; Koschatzsky and Zenker, 1999; Phelps et al., 2003; Sandberg, 2003; Jack and Anderson, 2002; Simsek et al., 2003; Asheim, 2002; Orban, 2000; Winter, 2003). From this point of view, proponents of the local embeddedness literature have concluded that *spatial proximity* facilitates relationships based on trust, since “trust-building is usually difficult to achieve over long distances because of the need for face-to-

face interaction" (Staber, 1996: 156). Thus, as a crucial factor for local embeddedness "trust" is highly dependent on distance.

Sunk costs is the fourth and the last issue which enlightens the TNCs' embeddedness with reference to their general characteristics. Since, as Sayer (1982) notes there is an internal relation between investment and location, it is needed to consider what type of investment ties firms and industries to particular places. Here the emergent literature on sunk costs (Clark, 1994; Clark and Wrigley, 1995) appears most significant. This strand of work represents an expansion of earlier work within the radical tradition, pointing to the connection between investment (primarily, in terms natural resources, land and property) and the spatial fixity of capital (Harvey, 1982, 1985). This earlier work tended to stress the absolute immobility of capital but there are many ways in which capital is relatively immobile due to investment decisions (for example, in relation to training of local labor, intangible learning effects in production, etc.). Clark and Wrigley (1995) argue that the concept of sunk costs is a crucial one in bridging firm-specific case studies with more abstract notions of spatial fixity. Sunk costs by definition tend to have limited transferability and recoverability and tend to be long-lived.

Clark and Wrigley (1995) identify three types of such costs, each of which can effectively engender a greater or lesser degree of locational inertia. First, *set-up sunk costs*, these might be training costs, acquiring or leasing land and property costs. Second, *accumulated sunk costs* which are localized sources of innovation and information, for example technical economies of scale can be mentioned both set-up and accumulated sunk costs. It is accumulated sunk cost since it is significant in tying particular firms and industries to particular places. Finally, *exit sunk costs*, which becomes apparent when a factory shuts or firm withdraws from a market or industry. Of course, there are a number of ways in which

companies invest considerable amounts of time and money in particular places – that is, when those investments are composed of a significant element of sunk costs.

II.IV.I.II. Managerial control / organizational control

Globalization process brings a new perspective both for organizational/managerial structure and production structure of firms as a result of developments in the information technologies. With the effects of flexible type of production firms can coordinate and realize their activities in different places at the same time. Hierarchical structure in the organization/management and increased responsibilities of each actor taking place in the organization are some of the examples for this new perspectives. This new perspective also give reference to the different dimension of locally embedded TNCs: organizational/managerial structure will be given below.

There are important issues in this subject. The first one is the coordination. According to the Dicken et al. (1994), the second important problem of the TNC is the “coordination of overseas activities” after locational preferences. The answers are hidden in TNCs’ integrated network configuration and their capacity to develop flexible coordinating process (inside the firm and outside the firm). Additionally, by applying network approach to the analysis of local embeddedness of TNCs; the authors describe two major determinants of the extent of local embeddedness; the first one is *the type of TNC operation involved*; that means its position (in internal production or external business network) and its functions performed. The second one is *the way in which TNC tries to coordinate its operations* and the degree and kind of influence units have on corporate strategic behaviour. The history and national origin of TNC itself which also determines the corporate importance of the assets and resources that the units’ control, and the size of units are the contributing factors in the explanation of

embeddedness. Dicken et al. (1994) summarizes their explanation of TNCs' local embeddedness by the "*fit*"ness of TNC headquarter and local milieu, that is, externalization of key functions and local environment meets the perceived requirements of the TNC.

The contribution of Bartlett and Ghoshal (1989) in this issue like that; TNCs in global complex forms are increasingly differentiating *the roles and responsibilities of their national subsidiaries* according to two related dimensions: the strategic importance of the local environment of the firm and the level of local responsibility and capabilities of subsidiary (it can be a strategic leader, contributor, implementer or black tide etc.).According to Bartlett and Ghoshal (1989) the degree of local embeddedness is depended on these two dimensions. The more the responsibilities and roles of local subsidiary the more locally embedded TNCs.

The third important issue is the *ownership ratio*. The ownership of TNCs remains national rather than global. Shares are held by individuals and entities from the home country rather than from foreign countries. Most seats on the board of directors are held by home country nationals, enabling the maintenance of control within that country (Yeung, 1998). Hu (1992) therefore argues that "there is no doubt that a company like Siemens is German, a company like IBM is American, or a company like Toyota is Japanese" (Hu, 1992: 111). Even in the case of Nestle', Swiss law allows Swiss companies to exclude foreigners from holding registered shares that carry voting rights. Nestle' thus limits non- Swiss voting rights to 3 per cent of the total. It is certainly a national (Swiss) firm rather than a 'stateless' firm. Today, few global TNCs have significant foreign ownership and foreign senior management (Yeung, 1998). Budd (1995: 347) notes that;

“many of these companies are seen as national and continental champions by their governments. National economic regulation may be a thing of the past but the degree of state intermediation in the form of systems of corporate governance, financial regulations and general business environment is the means of maintaining a national interest”.

The ownership ratio in partnership, thus, has been used as a key indicator measuring the bargaining outcome between TNC and the local partners (Yeung and Li, 2000). The higher proportion of ownership on one side should indicate its stronger bargaining power relative to its partner. Especially, when the control and coordination is taken into account, the partner who has the higher ratio of ownership has more control and power in management than the others. An ownership advantage gives a multinational firm a cost advantage over local rivals in the foreign market, it can be in the form of a product or process, or intangibles such as a reputation for quality, a superior management and so on (Brenton et al., 1999). Being powerful in the ownership affects coordination and organization of production that means decrease in the level of local embeddedness as mentioned above.

On the other hand, studies on the innovation and technology spillovers emphasise the importance of ownership ratio in spread and use of new technology. According to the Mutinelli and Piscitello (1998), technological intensity of the industry in a FDI takes place discouraged joint ventures in favour of wholly owned subsidiaries. Internalisation theory suggests, indeed, that greater control is appropriate and more efficient for highly proprietary products or processes because of the failures of markets for information and the risks of dissemination of knowledge when international transfer of tacit know-how is concerned (Arrow, 1972; Williamson, 1975, 1985; Buckley and Casson, 1976, 1979; Caves, 1982; Hill et al., 1990; Teece, 1993). This literature traditionally wanted to clarify the relationship between R&D intensity and TNC activity by focusing on the problems of knowledge exchange through external market.

Analyses of knowledge transfer among firms tend to distinguish between the codifiable part and tacit knowledge (Nelson, 1982). The tacit knowledge transfers are punctured with uncertainty and consequently, high transaction costs. TNCs have, therefore to way out to governance structure that economises on transaction costs and facilitates know-how transfers (Teece, 1980, 1982; Hennart, 1988). Therefore, a positive impact of the R&D intensity on the probability of choosing a wholly owned subsidiary has been generally hypothesised and tested (e.g., Fagre and Wells, 1982; Hennart, 1991a).

Repeat investment, which is broadly defined as “any substantial programme of reinvestment in the plant since the initial start-up”, is another important issue in the explanation of TNCs’ local embeddedness. This would include multi-phase projects planned at the time of the initial investment since these are rarely automatic and may be subject to competition from other company plants. According to Phelps et al (2003) there are some factors affecting the re-investment of the TNCs. These factors are; expertise of plant, labour skills, labour costs, spare capacity, government incentives, local assistance, size of establishment, infrastructure, local suppliers, local partnership, training and education facilities, technology transfer, and college or industry research and etc.

As mentioned previous section, parallel to the globalization and new regionalisation discussions three main arguments are appeared in order to clarify the spatial logic of embeddedness. *Institutional structure* is one of these arguments. Actually, there is some submission that differences in regional institutional capacities play an important role in the development of TNC-owned affiliates and their embeddedness (Cooke et al., 1995; Morgan, 1997b).

Here, the term ‘institution’ refers to the social conventions and norms that serve to structure and frame economic action, acting as sources of stability and routine (Martin, 2000). This ‘institutional turn’ in economic geography has focused

attention on the process of institutional formation or becoming through which regionally-specific outlooks and agendas are formed (Amin and Thrift, 1994; Storper, 1997). It is important to distinguish between institutions as 'hard', concrete organizations with funding and formal responsibilities and policies, and institutions as 'soft' capacities for action embodied in (often informal) sets of relations between economic actors (Phelps et al., 2003:29).

According to Amin and Thrift (1994), institutional fabrics of local structure, which is also called "institutional thickness", may be read in four different dimensions: a strong, obvious institutional presence; high levels of interaction amongst institutions in a local area; development of sharply defined structures of interaction and coalition; and, mutual awareness of being involved in a common enterprise (Amin and Thrift, 1994: 14-15). That means institutional thickness put emphasis to the social and cultural characteristics for the economic success of the region (Phillips and Yeung, 2003; Pavlinek and Smith, 1998; Hess, 2004; Oerlemans et al., 2000; Zanfei, 2000). Strongly existence of these characteristics helps to creation of local embeddedness of an industry, a firm and etc.

Additionally, the existence of relationship between TNC and institutions influence not only production process but also organizational structure. In accordance with Young et al. (1994) and Pike (1999) globalization process, which brings a trend toward organizational decentralization and a 'flattening' of corporate hierarchies, causes opportunities for embedding TNC affiliates by increasing the autonomy and responsibility of plant management. Phelps et al. (2003) on the other hand, concern new roles and positions of local managers of TNC affiliates. They may introduce new ideas, techniques and products to the wider corporation, and develop new relationships with local suppliers, research institutes and regional agencies. At the same time, interest in the role of regional

institutions (Amin and Thrift, 1994; Morgan, 1997b; Cooke and Morgan, 1998) reflects the development of a number of initiatives relating to the development of local supply chains, the expansion of aftercare services and efforts to generate technology transfer (Young et al., 1994; Young and Hood, 1995).

Bandelj (2002) open a different perspective for the explanation of TNCs' embeddedness. According to her, institutional arrangements between home and host countries are also important indicators for embeddedness. Formal agreements about FDI between investor and host countries influence investment flows and spatial fixity between them. EU agreement is a good example for the explanation of how region-specific institutional agreements influence FDI and their embeddedness.

II.IV.I.III. Production Structure

Phelps (1997), analyzed "to be an embedded branch plant" and he defined the characteristics of it; having certain manufacturing and non-manufacturing functions (like sales, marketing and R&D), being more innovative or technologically sophisticated than indigenous firms, being more integrated into their host economies by way of localized backward linkages, more qualified employment (low-skilled, low-paid and low value-added assembly work) provided branch plants compared to indigenous firms, branch plants are considered to be a relatively stable source of employment in their host economies and etc. in his study. From this point of view, some of the issues should be mentioned under the production structure topic that emphasize the local embeddedness of TNCs'; *localized backward linkages, levels of expenditure on training and skills and levels of expenditure on R&D / technology development.*

Phelps (1997) explains the criterion of local embeddedness of TNCs under two topics one of them is, the extent to which firm buy its various production inputs locally (localized backward linkages) and the other one is the sorts of institutions and policy implications which are directly affecting the embeddedness of TNCs, which is mentioned just above. Indeed, *localized backward linkages* are most commonly mentioned indicator of the embeddedness (Phelps et al., 2003; Phelps, 1997; Barlet and Ghoshol, 1989; Yeung and Li, 1999, 2000; Pavlinek and Smith, 1998; Larsson and Malmberg, 1999; Christerson, 2000; Dicken et al., 1994; Christerson, 2000). Dicken et al. (1994:38) have argued that “probably the most important single indicator of local embeddedness relates to supplier relationship”

Locational choice of the TNCs is the first step of the embeddedness process. After selection of a location other criterions become more important. As mentioned in the first chapter, Dunning argues that the locational choice of a TNC dependence on the locational advantage of foreign market that makes it profitable to produce the product in the foreign country rather than simply produce it at home and export it to the foreign market (Dunning, 1994). Although tariffs, quotas, transport costs, and cheap factor prices are the most obvious sources of location advantages, factors such as access to customers can also be important. These factors are also important for staying/being fixed to a location. The degree of local sourcing of materials and labours affects the decision of being embedded. The higher the level of local supplies of production materials and labour, the higher the degree of embeddedness of TNC.

Additionally, Dicken et al. (1994) emphasize the importance of networking among TNC, its local partner and other local suppliers for embeddedness. They argue that “...embeddedness in networks of local supply contracts, results from two key factors. First, the intensity of local supply networks is determined by

'the extent to which the local subsidiary is free to choose its suppliers'. Second, localized supply linkages are determined by the extent to which there are local potentials for such networks to be developed" (Dicken et al., 1994: 38). The former one is depended on the role and responsibilities of the local partner and on the other side, control and coordination type of TNC. The latter one is depended on the local potentials. It can be said that here, the effects of local backward linkages (local supply of materials and labour and local supply linkages) on local embeddedness of TNCs is strongly related with using and development potentials of these sources and networking structure among actors. The expenditure on the local labours' skills and training is another important discussion point in the embeddedness literature. According to Amin et al. (1994) labour skills and other supply-side factors are questionably more crucial than particular programmes relating to aftercare in determining the quality of investments in different EU regions. Actually, there is some substantiation form different parts of the UK, suggesting that current inward manufacturing investments are generating a requirement for new and higher skilled workforce in peripheral regions such as Wales, the South West and the North East of England (Peck and Stone, 1993; Rees and Thomas, 1994; Potter, 1995; and Phelps and Fuller, 2000). But the studies of Phelps et al. in 2003 emphasize that "the impact of manufacturing FDI in upgrading skills and capabilities within local labour markets is often rather limited given that incoming firms tend to recruit from the existing skilled workforce, leading to increased wage inequality, and given that many of the training set up costs are borne local institutions part of an incentives package" (Phelps et al., 2003:34). According to Larsson and Malmberg (2000) the relationship between local universities and research institutes of local partners are increased the possibility of embeddedness.

Technology development and R&D activities are very important issues in the analyzing the degree of local embeddedness of TNCs. Their use, development

and spill-over effects influence both host country and TNCs. As mentioned above investing to the technology (especially to the new technology and R&D activities) is very expensive activity for TNC, but on the other hand, it has very huge turn-over for both TNC and host country (Hood and Young, 1976; Thwaites, 1978; Cantwell, 1995; Allen and Thompson, 1997; Howel, 1992; Christerson, 2000). For example, technology transfer can have a positive impact on the technological capability of enterprises in the host country and on regional economic development. Actually, TNCs are particularly important for developing the technological capabilities of national economies (Weikl and Grotz, 1999). Access to, diffusion and utilization of technologies are mainly determined by large TNCs. If enterprises are involved in regional networks advanced transnational technology transfer can have a positive effect on the technological capacity of enterprises in the host country. Against this background transnational technology transfer is of importance for regional economic development (Plum, 1995). Many studies have been undertaken in this context (Pearce, 1989; Kumar, 1990; Taggart, 1990; Wortmann, 1990, Cantwell, 1991; Cantwell and Hodson, 1991, Gugler and Dunning, 1991). According to the studies, TNCs which invested to technology have a possibility to be embedded that location (Hood and Young, 1976; Thwaites, 1978; Cantwell, 1995; Allen and Thompson, 1997; Howel, 1992).

Different from these perspectives; Larsson and Malmberg (2000) emphasize another crucial dimension of technological relations in local embeddedness of foreign firms. Technical consultancy by TNC and/or local firms within international technology profile, annual expenditure of technology producing (R&D) and place of this production (in home or in host countries) and spatial proximity between home and host countries are effective factors for embeddedness. According to the Larsson and Malmberg (2000:12) “the more locally embedded the technological relations, the more innovative the firm”.

As mentioned above, according to the studies of Halinen and Törnroos in 1998 **technological embeddedness** is one of the important types of embeddedness. Companies are depend on not only specific product technologies and processes, but also on such infrastructural technology as refer to the general technology level of a country e.g. its transportation and information systems. In fact, over the past decade companies have been showing an increasing tendency to enter various technological networks and strategic alliances with other industrial companies, with research laboratories and institutes and with universities and science parks.

Similar studies come from Anderson et al. (2001); they analyze the embeddedness of TNC at subsidiary level. According to them market performance, competence development and external technological embeddedness are the keys of successful embeddedness.

CHAPTER III

METHODOLOGY

Studies on the explanation of the TNCs' local embeddedness generally incorporate three different methodologies; qualitative methods, quantitative methods and a mixture type of them, which is also called as triangulation method. Quantitative researches are generally concentrated on one specific location and try to reach and make questionnaires from firms related to the subject. The number of the firms is very important in these types of researches, because in order to reach the general conclusion the case number is very critical. The more firms are questioned; the exact conclusions can be reached. Qualitative studies, on the other hand, is concentrated only on a limited number of firms. The aim of these studies is not to reach general conclusions instead to understand the process more deeply in a limited number of cases. The deeper the interview realized by the firm, the higher the quality of the study. The last method which uses multiple data and methods in understanding the subject, both qualitative and quantitative one, is generally used in order not to miss details by using quantitative analyses, or not to see the whole of the structure.

In this dissertation, triangulation data and triangulation methodology is employed. A combination of qualitative and quantitative methods will be used to address the research questions related to local embeddedness of TNCs. Grounded theory is also used in the qualitative analysis. The next sections give details about methodology used in this dissertation.

III.I. LEVELS OF THE THESIS

Analyses at three different level are conducted in this thesis (Table III.I). The first level is the national/country level of analysis which realized by the on-line computerized data bases collected from the central government's resources in different periods of time during the thesis. The goal of this level analysis is to identify the general characteristics of TNCs in Turkey, to clarify the differences among cities and regions in terms of establishment years, home country, sector, and locational preferences of TNCs. Thus, it will be possible to select the city in which detailed case studies will be realized. As mentioned previous sections political and economic structures of home country is very crucial factor in locational preferences of TNCs (Dunning, 1981; 1994; 2000). For this reason, all these analyses in this level are realized in historical perspective with reference to the political and economic fluctuations in Turkey.

Table III.I. Levels and methodologies of the thesis

LEVEL	METHODOLOGY	AIMS
National/ Country (on-line computerised databases as a primary source of data)	Statistical methods / Geographic Information Systems and Historical analysis	to identify the general characteristics of TNCs in Turkey from "quantifiable" variables and to select the city in which detailed case studies will be realized
City (on-line computerised databases as a primary source of data)	Statistical methods / Historical analysis	to understand the attractiveness reasons by which the "quantifiable" variables identified for that city and to clarify its position relative to whole country from TNCs point of view
Individual Firm (use of a qualitative data analysis)	In-depth interview (grounded theory approach)	to understand how the factors identified previous levels influence TNCs and to identify other "qualitative" variables affecting local embeddedness of TNCs.

In order to utilize quantitative dataset obtained from the central government's resources, statistical methods, GIS and historical analysis are used for different aims. At the beginning quantitative data obtained from internet page of The Undersecretariat of Treasury are analyzed by statistical methods. SPSS is used for this analysis. Descriptive analysis (frequencies, crosstabs and etc.) is utilized for preparing a general picture of TNCs in Turkey. Crosstabs and other descriptive analyses are also used in illustrating the locational preferences, sectoral distribution, home country diversification and amount of invested capital of TNCs in Turkey. Geographical analyses in this level is very useful, because visual representation of these quantitative variables clarify the differences among cities in terms of TNC related variables. Especially relative importance of İstanbul in every aspect can be seen clearly from these maps. All these statistical analyses and GIS are realized in a historical perspective. Chronological distinction among these quantitative data is very crucial to analyze the intersection between developments in Turkey and invested TNCs.

The second level is namely "city level" (İstanbul) analysis which is collected from on-line computerized databases too. The aim of this stage is to understand the reasons of attractiveness that city and to clarify its position relative to whole country from TNCs point of view. Here, again statistical and historical analyses are used to reach the goal. Statistical methods are used both in descriptive data set and determining different clusters from which deep-interview selection is realized. SPSS program is again is used in these descriptive analyses (frequency tables, crosstabs, summary and etc.) and "Hierarchical Cluster Analysis" TNCs in İstanbul.

The number of TNCs located in İstanbul is very large, so it is very difficult to decide the specific TNCs for in-depth interview. For this reason, a hierarchical cluster analysis is held in the selection of these firms. The criterion used in the

cluster analysis are; establishment year, home country, sector, invested capital, ownership ratio of the TNC. With using these data, 5 steps cluster analysis is derived in SPSS program. With reference to the analysis, number of cases from each cluster is decided. The important point here is the preservation of the rough proportionality between firm number in the cluster and in the case study (Table III.II).

Table III.II. Distribution of clusters and selected TNCs

	Cluster 1		Cluster 2		Cluster 3		Cluster 4		Cluster 5	
	#	%	#	%	#	%	#	%	#	%
İstanbul	252	20	357	29	163	13	167	14	298	24
Selected TNCs	3	20	4	27	2	13	2	13	4	27

The third and the last level is the individual firm level analysis that contains deep-interviews with selected cases in İstanbul. Data collection and analysis follow grounded theory (Glaser and Strauss, 1967; Miles and Huberman, 1984) building techniques in that level. The goal of this level analysis is to understand how the factors identified previous levels influence TNCs and to identify other “qualitative” variables affecting local embeddedness of TNCs. The important point has to be mentioned here is that, the aim of this level is not to reach a general conclusion instead “to understand the process more deeply in limited cases”. The deeper the interview realized by firm, the higher the quality of the thesis.

As mentioned previous level, cluster analysis is used in the categorization of TNCs in İstanbul. After determination of possible TNCs for deep-interview from these clusters, these TNCs are called by phone for getting an appointment from

their director. It is crucial to get an appointment from directors of these TNCs, because more comprehensive and detailed information about the whole firm can be obtained from them. As can be expected that getting an appointment from these TNCs and these persons. Especially, Asian oriented TNCs are so closed for these types of interviews. Different from other countries, Japanese firms wanted a formal letter that includes the contents of this doctoral dissertation and this interview to send it and to ask permission from their headquarters in Japan. But none of the Japanese TNCs accepted to realize an interview. By using informal relations and giving promise not to spell the name of the TNCs in this thesis, only one of them made an appointment. The general attitude of Japanese TNCs can be explained by both business cultures of Japanese and strict control of headquarters. This type of control mechanism, which will be held in the next chapter, is a reflection of disemboddedness.

Fifteen in-depth interviews are realized in July 2003 and lasted one to two hours with the TNCs. All most all of the questions are open-ended except questions that are related general structure of the TNCs and contain numerical variables. As mentioned, these interviews are realized according to the grounded theory, detailed information about this theory and its use in this thesis will be given in the following section.

III.II. GROUNDED THEORY APPROACH

Grounded theory is one of the best known theories in qualitative analyzing. Grounded theory encourages researchers to adopt an 'open' approach in their field study, thus allowing the development of theory (or plausible relations among concepts) that is grounded in data systematically collected and analysed (Glaser and Strauss, 1967; Partington, 2000; Strauss and Corbin, 1998). This methodology also accommodates and encourages continuous research because it

considers the plausibility of a theory as temporary and spatial. This allowed us to undertake the interviews incrementally (Xiao et al., 2004).

III.II.I. General characteristics of grounded theory

Grounded theory has three elements, namely, concepts, categories and propositions. Concepts are the basic units of analysis since it is from conceptualisation of data, not the actual data per se, that theory is developed. The second element of grounded theory, categories, is defined by Corbin and Strauss (1990:7) as follows: “Categories are higher in level and more abstract than the concepts they represent. They are generated through the same analytic process of making comparisons to highlight similarities and differences that is used to produce lower level concepts”. The third element of grounded theory is propositions which indicate generalised relationships between a category and its concepts and between discrete categories. This third element was originally termed 'hypotheses' by Glaser and Strauss (1967). It is considered that the term 'propositions' is more appropriate since, as Whetten (1989:492) correctly points out, propositions involve conceptual relationships whereas hypotheses require measured relationships. Since the grounded approach produces conceptual and not measured relationships, the former term is preferred. Proposals versus hypothesis in grounded theory to understand the research situation.

III.II.II. Phases of the thesis with reference to grounded theory building

Five analytical (and not strictly sequential) phases of grounded theory building and thus this thesis can be recognized: research design, data collection, data ordering, data analysis and literature comparison (Pandit, 1996). Table III.III provides an overview of these phases, steps and reflections of them to this thesis.

Table III.III. The Phases of the Thesis with reference to Grounded Theory

Phase	Activity
RESEARCH DESIGN PHASE	
Step 1 Review of technical literature	Why TNCs are locally embedded? How can we analyze the degree of embeddedness? What are the determinants of local embeddedness of TNCs in Turkey?
Step 2 Selecting cases	Locally embedded TNCs in the world (especially in Europe); (general, organizational/managerial, production structures of them)
DATA COLLECTION PHASE	
Step 3 Develop rigorous data collection protocol	Quantitative analysis for the first two levels of analysis from on-line computerized databases (national and city levels).
Step 4 Entering the field	Qualitative analysis for in-depth interviews with individual TNCs in the third level of this thesis.
DATA ORDERING PHASE	
Step 5 Data ordering	The first two levels' results are analyzed historically and then qualitative analysis results of the last level are integrated into this chronology.
DATA ANALYSIS PHASE	
Step 6 Analysing data relating to the first case	General structure (home country, sector, invested capital, etc) Organizational structure Production structure
Step 7 Theoretical sampling & Reaching closure	Identify the interrelation between cases and other theoretical explanations
LITERATURE COMPARISON PHASE	
Step 8 Compare emergent theory with extant literature	Existing theoretical framework is not enough to explain the local embeddedness of TNCs in Turkey.

Source: Adopted from Pandit (1996)

Research Design Phase: Research design is defined by Easterby-Smith et al. (1991:21) as, “the overall configuration of a piece of research: what kind of evidence is gathered from where, and how such evidence is interpreted in order to provide good answers to the basic research questions”.

The first step of this phase is the review of technical literature so as to define the basic research questions. The literature case is important, because it is directed to the generation of the initial theoretical framework of corporate turnaround. Empirical cases are then selected after a time to test and extend this framework.

The first step of this phase is the review of technical literature so as to define the basic research questions. The literature case is important, because it is directed to the generation of the initial theoretical framework of corporate turnaround. Empirical cases are then selected after a time to test and extend this framework. Research questions should be defined narrowly enough so that the research is focused and broad enough to allow for flexibility and serendipity (Pandit, 1996).

For this reason a quick literature survey on the local embeddedness of TNCs is realized to clarify the borders of the thesis. The basic research questions are;

- Why TNCs are locally embedded?
- How can we analyze the degree of embeddedness?
- What are the determinants of local embeddedness of TNCs in Turkey?

After generation of basic research questions, locally embedded TNCs in the world (especially in Europe and their general, organizational/managerial, production structures) are selected as the next aspect of research design and as the *second step*.

According to the principle of theoretical sampling, each additional case should serve *specific* purposes within the overall scope of enquiry. Three options are identified by Yin (1989: 53-54):

- choose a case to fill theoretical categories, to *extend* the emerging theory; and/or,
- choose a case to *replicate* previous case(s) to *test* the emerging theory; or,
- choose a case that is a polar opposite to *extend* the emerging theory.

The contribution of this thesis is very crucial, as almost all of the studies on local embeddedness of TNCs are realized in European and other developed countries. Analyzing the local embeddedness of TNCs in Turkey will open different perspectives in embeddedness literature. Therefore, the first and the last options given above are used in this thesis. Since, all theories in this concept are from developed countries and Turkey as a different case will enable us to extend these theories.

Data Collection Phase: The grounded theory approach advocates the use of multiple data sources converging on the same phenomenon and terms these as 'slices of data.' Glaser and Strauss (1967: 65) state,

“In theoretical sampling, no one kind of data on a category nor technique for data collection is necessarily appropriate. Different kinds of data give the analyst different views or vantage points from which to understand a category and to develop its properties; these different views we have called slices of data. While the [researcher] may use one technique of data collection primarily, theoretical sampling for saturation of a category allows a multifaceted investigation, in which there are no limits to the techniques of data collection, the way they are used, or the types of data acquired”.

The use of multiple data (triangulation data) has some advantages; quantitative data can point to directly observable relationships and corroborate the findings

from qualitative data. Qualitative data can help understand the rationale of the theory and *underlying* relationships. The use of multiple data sources thus enhances construct validity and reliability.

The *third step* of this phase is to develop a rigorous data collection protocol by employing multiple data collection methods using both qualitative and quantitative data and systematically establishing a case study database.

The principal data source for the case studies realized in national and city levels are quantitative dataset obtained from central government resources. There is a huge amount of numerical data set in this web page and on the other hand, data base for case study realized with selected TNCs at the individual firm level are obtained from deep-interviews. This data bases are constructed within the qualitative data analysis. This individual firm level qualitative data analysis is the *fourth step*, which was entering the field, of this study.

Data Ordering Phase: According to Yin (1989: 119);

“The arraying of events into a chronology permits the investigator to determine causal events over time, because the basic sequence of a cause and its effect cannot be temporally inverted. However, unlike the more general time-series approaches, the chronology is likely to cover many different types of variables and not be limited to a single independent or dependent variable”.

In the *fifth step* (data ordering), the first two levels' results are analyzed historically and then qualitative analysis results of the last level are integrated into this chronology.

Data Analysis Phase: Data analysis is the most important phase in the grounded theory building research. For the study as a whole, data collection, data ordering, and data analysis were *interrelated* (Pandit, 1996). The grounded theory approach adopts *coding* as the primary tool of analysis. There are three types of

coding: open, axial and selective coding. These are analytic types and it does not necessarily follow that the researcher moves from open through axial to selective coding in a strict, consecutive manner. “Whereas open coding fractures the data into concepts and categories, axial coding puts those data back together in new ways by making connections between a category and its sub-categories (i.e., not between discrete categories which is done in selective coding). Thus, axial coding refers to the process of developing main categories and their sub-categories. Selective coding involves the integration of the categories that have been developed to form the initial theoretical framework” (Pandit, 1996: 5).

In this thesis after open coding, categorization that given above (Table III.III) is realized; general structure, organizational structure and production structure. These three categorizes are given reference to the literature step 2 mentioned above. Identifying the interrelation between cases and other theoretical explanations is the main objective of this step.

Literature Comparison Phase: The *eighth* and final step is to compare the emerged theory with the extant literature and examine what is similar, what is different, and why. Eisenhardt (1989: 545) states:

“Overall, tying the emergent theory to existing literature enhances the internal validity, generalisability, and theoretical level of the theory building from case study research ... because the findings often rest on a very limited number of cases”.

The results of this phase are given in the next chapter of this thesis in the Table IV.XX.

CHAPTER IV

CASE STUDY:

THE EVOLUTION OF TNCs AND THEIR LOCAL EMBEDDEDNESS IN THE TURKISH CONTEXT

All most all of the TNC literature are developed from the developed countries' experiments. For this reason, Turkey as a developing country is a useful case to open a different perspective to the subject. As mentioned previous chapter, the case study begins with national and city level analyses, and then continues into firm level analyses. The first section of this chapter includes these national and city level analyses and the second section gives conclusions of the firm level analyses.

IV.I. THE EVOLUTION OF TNCs IN THE TURKISH CONTEXT

The aim of this step is to understand the evolution in the locational preferences of FDI in Turkey and take the clues for the case studies realized in the next step. For this reason a historical analysis, which consists of four different periods, is derived here. It will be meaningful to decide these periods with reference to political development of Turkey. Since any changes in the political structure (policies, institutions, and all other legal arrangements for foreign investments, etc.) of Turkey will directly affect the foreign investment decision for the TNCs.

Turkey has always been an attractive country for the foreign enterprises, because of its natural resources, raw materials and social potentials cheap labour force, consumption demand, inadequately supplied domestic markets, etc. From the establishment of Turkish Republic together with supports given to the domestic production, the successive governments have tried to attract foreign enterprises into the country.

Most of the foreign investments which inherited by the Republic had taken place mostly in railway construction, so as to create new markets and/or access the existing markets for their (foreign) products. Ottoman Empire was unable to protect the national production from international competition by import substitution policy, and the young Turkish Republic had inherited not only large amounts of foreign debt, but also weak production structure outdated technologies.

During the 1930s and 1940s, the government formulated an ideological position called "etatism", which is, as emphasized above, a middle way between a Western style market economy and Soviet style industrial planning system. After following liberal policies during the 1920s, the country adopted etatist principles mainly due to inadequacy of private entrepreneurship, the world depression, the intellectual impact of Soviet five-year plans and the related ideological positions favouring public entrepreneurship. The objects were rapid development through an increase in industrial production, improvement in the balance of payments, rising living standards through economic growth and economic independence. The etatist policies survived the Second World War, mainly due to necessity for government controls in presence of war conditions.

Until 1980, the public sector has been dominant in the Turkish economy. The share of public sector in industry amounted to about 60 percent. The government through the State Economic Enterprises owned enterprises not only in energy production, railway transportation and telecommunication but also in manufacturing industry.

In January 1980, the government introduced a comprehensive policy package to correct the worsening economic situation. The immediate goals of the reforms were the reduction of inflation and the balance of payments deficit. The policy makers further aimed at making the economy responsive to market forces in the long run, and in turn more dynamic and efficient. To this end, Turkey attempted to foster competition. It was recognized that international trade would be the most effective means to stimulate competition in the economy.

More than twenty years have passed since the introduction of the market-oriented structural adjustment program. During this period Turkey tried to make the economy increasingly responsive not only to the market forces but also to the foreign enterprises in order to reach the higher levels of welfare.

An evaluation of these foreign direct investments is made in this chapter of this thesis under four different periods: introduction of FDI to Ottoman Empire was realized in the in the first period, which is named as "The Last Period of Ottoman Empire". The second period, i.e. "Early Republican Period (the 1920–1945)", characterises the reconstruction of a national economic system and liquidating the existing foreign firms which had a privileged position in the economy. The third period of the study, which spans from 1946 to 1990, exhibits different policies like; "Integration to International Economic System" with the policy of "controlled capital import", "Transition to Free Capital Import and the Debt Crises" and "Free Mobility of Goods – transition to greater liberalization

with 24th January package". The fourth and the last period focuses on "The Global World Market and Integration to the Newly Emerged Networks" in the 1990s.

IV.I.I. First period: Opening up of the Ottoman Empire to Foreign Capital (from 19th Century to the World War I)

The last period of Ottoman Empire is very interesting in terms of capital movements, because she had always been an open peripheral economy in these years. As a result of, failures in initiating the development process (i.e. lagging reforms, cultural and scientific renaissance, new innovations, etc. which took place in Europe since the 16th century onwards), the trade privileges given since 16th century started to be turned into unilateral "capitulations" conceded by the Ottoman Empire in 19th century. At this point, foreign resources of capital, which were foreign debts and FDI, were determining factors in the economic life of the country.

Although, there have been many foreign investments in this period (Figure IV.I and IV.II), only two of them have been properly registered according to the Undersecretariat of Treasury. These two investments have been in İstanbul by the 1919, but their home countries, invested capital and invested sectors have not been available. On the other hand, according to Yerasimos (1975), FDI in Ottoman Empire had mostly gone to service sectors; such as finance, insurance and trade, and infrastructure such as railway, electricity and water supply (Table IV.I.). The reasons in preferring of these sectors by foreign investors, was high profit rate in short-run on one hand, and the characteristics of foreign capital on the other hand (Kepenek, Yentürk; 2000: 11). In general, during the XIX century, most of the foreign investment had been realized to these sectors in developing countries. That means foreign capital had not preferred to invest to industrial

production, because this type of investment was more expensive and required new technology.

Foreign investors mostly preferred to construct railways that were used/operated for their commercial activities. The first railway construction in Anatolia was completed by British in 1860 (İzmir-Aydın Railway). A French firm constructed the Bandırma-İzmir Railway before the World War I, similarly, Edirne-İstanbul Railway construction was completed by a French firm. Another line, which was planned to be connected to Baghdad, was Istanbul-Eskişehir-Adana Railway (which was therefore called as “BAGHDAT BAHN”) but it could not be completed (Azcan, 1995:197). The most important point for all these railway constructions was that foreign investors were also operators of them. This was another privilege given to the foreign investors in this period.

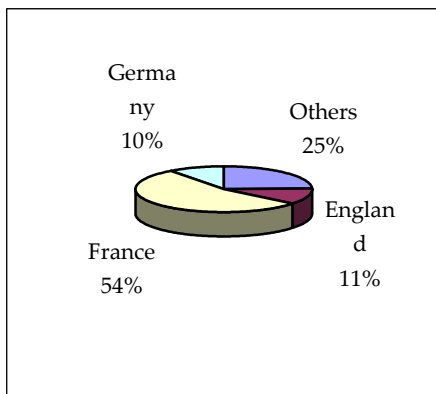
Table IV.I. Foreign Investment to Ottoman Empire (1000 Ottoman Liras)

Investments	Total Invest. (1)	Net Annual Total (2)	Ratio (2/1)*100
Railways	53.310	1.040	1,95
Electricity, water, tramways	5.700	170	2,98
Seaports and wharves	4.710	160	3,40
Industry	6.500	560	8,61
Trade	2.660	-	-
Mines	3.580	230	6,42
Banking and insurance	8.200	890	10,85
Insurance paid by govern. for per km. of railway	-	420	-
Total	84.660	3.370	3,98
Foreign debt	149.480	13.000	8,70
General Total	234.140	16.370	6,99

All these data refer to the period before the World War I

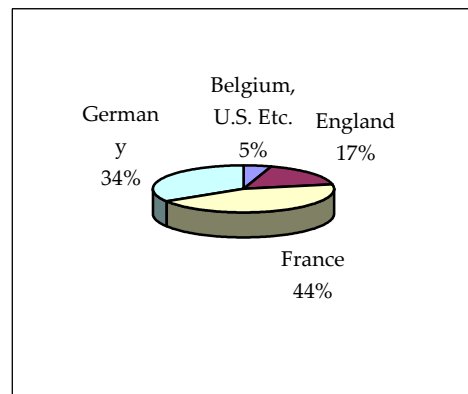
Source: Yerasimos, S., 1975:949.

Actually, the distribution of FDI can be useful in the explaining Ottoman Empire's foreign political relations. According to Kepenek and Yentürk (2000), international political relations of the empire was highly interesting, since, she had encouraged imports and discouraged exports at the same time. Although Ottoman Empire had unsuccessfully tried to protect national production from international competition and exports could meet only 60% of her imports (Kepenek, Yentürk, 2000: 22).



Source: Kepenek, Yentürk, 2000: 11.

Figure IV.I. Foreign investment to Ottoman Empire during the 1860s.



Source: Kepenek, Yentürk, 2000:11

Figure IV.II. Foreign debt of Ottoman Empire during the 1860s

In sum, until the 1920s the 68% of the foreign investment had been used for railways, and according to Eldem (1973:73) 63% of these railways are still in the boundaries of Turkish Republic. European countries that have constructed railways utilized these investments in creating and accessing new markets for their products. For this reason, although Ottoman Empire had aimed to develop her economic structure, she had lost control on domestic economic life.

IV.I.II. Second period: Early Republican Period (1920 – 1945)

This period, which is called by Kazgan (1999) as the “transition from an Empire to a Republic” includes not only institutional and legal arrangements/regulations but also creation of national economic system. That's why this period was very critical in terms of political decisions shaping the economic future of new Turkish Republic.

During the years 1923-1945, radical changes have occurred in the world economy. The world depression in the 1930s and the 2nd World War were the most crucial of these changes. With the effects of these events, global capitalist system has collapsed and capital and product mobility have decreased sharply. Each country had to prefer unilateral economic policies ignoring international cooperation since the trust to free market economy has declined.

Turkey tried to create her own social, political and economic structure on the one hand and minimize the effects of these negative developments occurred in the world on the other. Turkey aimed to turn all these external difficulties to internal advantages. The first important step in terms of economy was realized in İzmir in 1923. İzmir Economy Congress, which is accepted as a starting point for nationalist policies, was organized in order to discuss the problems of young Turkish Republic's farmers, workers and entrepreneurs, and to determine the new attitudes to foreign investors. The republican leaders were not sympathetic towards giving privileges to FDI as it happened to be in years of Empire. It would not wrong to say that, the economy of Ottoman Empire was highly depended on foreign capital and investment. The development of a national production system has been given priority. “*Abolishment of capitulations and elimination privileges given to foreign firms*” policy related with this ideological view was implemented by the government. Although capitulations were

abolished with the Treaty of Lausanne, Turkey could not control the custom duties until 1929 (Kepenek, Yentürk, 2000: 47 and Kazgan, 1999: 57). After that time, government started to control the reconstruction of foreign trade regime, payments of foreign debts, accumulation of national capital, development of economy and diminishment the effects of world economic crisis. Because of the abolishment of capitulations, the foreign firms had lost all of these privileges. All the railways and seaways operated by foreigners were confiscated and nationalised by the government. Secondly, “*creation of national bourgeoisie and Moslem-Türk entrepreneur*” policy was implemented in this period. Actually, during the Ottoman Empire, more than half of the production facilities were realised by foreigners and non-Turkish ethnical groups (Kazgan, 1999:65).

Table IV.II. Ownership of Capital and Composition of Labour Force in Ottoman Industry in terms of Ethnical Origin (1915)

Ethnical origin	Share in capital (%)	Share in labour force(%)
Moslem-Turk	15	15
Greek	50	60
Armenian	20	15
Jewish	5	10
Foreign	10	-
TOTAL	100	100

Source: Ravndal, 1926, Turkey: A commercial and Industrial Handbook, p.161.

Table IV.II illustrates the distribution of production facilities in terms of capitals and labour’s ethnical groups. As can be seen the table, the half of the capital and more than half of the labour were Greek. Turks were mostly occupied with agriculture and bureaucracy, which are not directly related with capital ownership and production system.

In the early 1930s, the government formulated an ideological position called “etatism”, which is a middle way between Western style market economy and the Soviet style planning system (Togan, 1994:1). During these years, the great depression led to a sizable decrease in Turkish agricultural product, hence Turkish export revenue declined sharply and led to a major political crisis in the country (Kazgan, 1977:240-259).

Thirdly, government implemented etatist policies in industrial sector within the framework of “*five-year plans*”. The plans assigned a leading role to the public sector in saving generation and in carrying out key entrepreneurial functions in industrial development (Togan, 1994:2).

The etatist policies survived the Second World War mainly due to necessity for government controls in the face of war conditions. In January 1940, the law on national protection was accepted by the Parliament. This law granted the government the power to completely take over the national economy (Togan, 1994:2). During the 1940s, the development of the whole economy came to a standstill. Per capita income stationary or fell, but disposable incomes definitely fell due to higher taxes (Togan, 1994:2).

In the immediate post-war years the Marshall Aid was granted to Turkey, and Turkey became a member of the Organization for Economic Co-operation and Development (OECD) and International Monetary Fund (IMF), thus promoting Turkey’s ties with the West. Besides existing business Moslem-Turkish companies, rich farmers have become the new entrepreneurs as a result of the Marshall Aid in agricultural mechanization.

These developments demonstrate that the main goal in this period was not only encouragement of entrepreneurship but also implementation of nationalist

policies. As a result of these policy implications, the first fundamental step in industry sector was taken during the crisis and war years, and no new foreign investment has been realized according to the Undersecretaries of Treasury.

IV.I.III. Third period

As mentioned above there are three important policies are implemented by Turkish government in this period. All of them will be explained below briefly.

IV.I.III.I. Integration to International Economic System, Phase I (Controlled Capital Import, 1946-1975)

After the World War II, two significant changes took place in the world economic system. Firstly, US, the most powerful country in the world, reformulated the international economic relations. Thus, international institutions that were founded by the initiative of the US (International Monetary Fund (IMF), International Bank for Reconstruction and Development (IBRD), General Agreement of Tariffs and Trade (GATT), North Atlantic Treaty Organization (NATO) etc.) began to shape the international economic relations. Secondly, US aimed to strengthen and support her partners so as to control the expanding power of the Soviet Union, who was among the winners of the war.

Turkey had passed from three different policy phases in relation to the changes in the international economic relations in this period: *Integration to international system* that was founded after World War II, *transition to a more liberalized and open market economy and encouraging foreign investment*, and lastly, *controlled and planned-economic development process (1963-1974)*. With policy advise by the US, Turkey became integrated into the new international economic system and its institutions (in 1947 IMF, 1956 International Finance Cooperation (IFC), 1960

International Development Association (IDA), 1945 International Labour Organization (ILO), 1961 Organization for Economic Cooperation and Development (OECD) and GATT etc.). According to the World Bank (1950:32-33), one of the reasons for increasing foreign capital inflows to Turkey in the post- World War II years was entering these international economic organizations. Until this period, government had limited recourse to foreign borrowing and the emphasis was put on repaying Ottoman debts. Actually, after World War II, Turkey had a minor foreign debt burden (Bulutoğlu, 1974: 142).

Table IV.III shows the foreign capital resources between the years 1946-1962. As can be seen from the table, foreign debts have risen 750% in TL. 410% in US \$. This increase was higher than the increase in the national income.

Table IV.III. Foreign Aid and FDI, 1946-1962

	Economic Aids of the US			Other aid foundations	Realized FDI	Realization ratio*
	Debt	Grant	TOTAL			
1946-48	45,4	-	45,4	5,0	-	70,8
1949	33,8	-	33,8	-	-	
1950	40,0	31,9	71,9	80,4	-	
1951	-	49,8	49,8	-	3.400	70,8
1952	11,2	58,4	69,6	35,2	2.993	11,1
1953	-	58,6	58,6	20,0	1.148	6,3
1954	-	78,7	78,7	3,8	2.598	2,4
1955	25,5	83,8	109,3	-	8.002	16,3
1956	25,0	104,3	129,3	-	21.605	32,3
1957	25,1	62,3	87,4	13,5	10.531	24,6
1958	23,2	90,4	113,6	125,5	15.068	26,1
1959	97,2	107,0	204,2	-	19.825	28,5
1960	26,5	99,0	125,5	37,0	18.711	38,2
1961	131,0	89,8	220,0	161,7	43.056	48,9
1962	102,5	81,6	184,2	15,0	87.246	65,3
TOTAL	586,4	995,6	1.584,0	497,1	234.233	32,8

* Realized FDI as a proportion of FDI permits.

Sources: Economic Aids of the US; Harris, G (1972:182)

Other aid foundations; Bulutoğlu, K (1974:118-119)

Foreign Capital; US AID (1973:38)

One important characteristic of this period is the encouragement of foreign private capital (Kepenek and Yentürk, 2000:103). In order to realize this aim, the regulations based on Act No: 1567 (Türk Parasının Kıymetini Koruma Hakkında Kanun) was modified as a first step, accordingly foreign investors could invest in agriculture, industry, transportation, tourism and other sectors. As a second step, another crucial Act No: 6224 (Yabancı Sermaye Yasası) was legislated on January 1954. This act, which was in effect up to the 1980s., was prepared by the help of US experts. Foreign investors could invest in all sectors that were open to the Turkish entrepreneurs. Additionally, the type of investment could not only be pecuniary but it could also be machinery, equipments, license, patent and brand names. According to the Tuncer (1968:80) 3/4 of the foreign investment realized in 1965 was in machinery and equipments and only 17% of it was in cash.

The third regulation was the preparation of Act No: 6326 (The Law on Petroleum - Petrol Yasası) on March 1954. This act was also prepared by US experts and aimed to utilize foreign technology in exploration and production of petroleum. Again, according to Tuncer (1968:80) 1.850 million TL worth of foreign capital entered the country due to this act. Kepenek and Yentürk (2000:101) argue that, this sum was greater than the total FDI that entered the country owing to Act No: 6224 (Yabancı Sermaye Yasası), these investments could not substantially increase the national petroleum production.

The government used short-term credits with higher interest rates for financing foreign trade gaps. Additionally, it provided long-term foreign credits to the national private enterprises (Kepenek, Yentürk, 2000:101). As a whole, FDI did not have much impact on increasing industrial production of the country. Foreign investment, which was realized due to the Act no: 6224, was 1/8 of total foreign capital inflow between the years 1946-1975. In spite of the increase in the

amount of foreign investment (except the years 1957 and 1960), the FDI entries were below expectations. One of the most important reasons of this situation was, uncertainty in political and economic life of the country (Kepenek and Yentürk, 2000:102).

Table IV.IV. Locational and sectoral distribution FDI (1946-1975)

Invested city	Total invested capital ¹		Most investing country	Most preferred sector
	(trillion TL.)	% in total investment		
Ankara	50.4	2,5	Netherlands	Motor vehicle
Bursa	371.9	18,7	France	Motor vehicle
İstanbul	1218.8	61,4	Mixed ² (Sweden)	Other chemical products, Finance
İzmir	16.8	0,9	England	Motor vehicle, Beverages
Kocaeli	255.0	12,8	Netherlands	Rubber industry, Other chemical products
Manisa	1.8	ng	Switzerland	Industrial chemical products
Rize	10.7	0,5	Netherlands	Food industry
Zonguldak	44.4	2,2	U.S.A	Iron and steel industry
Total	2013	99,1	-	-

¹ Total invested capital in this table and its similars in the following sections refer to historical, current-price sums. Due to high rates of inflation in our country, these sums therefore overemphasize more recent years in the sample period.

² Mixed indicates that the top-ranking FDI in undertaken not by a single country, but a group of countries.

ng: the value is so small that neglected here.

Source: prepared from www.treasury.gov.tr

Table IV.IV shows the locational and sectoral distribution of FDI in this period. As can be seen from the table, most of the foreign entrepreneurs preferred to

invest in İstanbul (61,4 % of total capital invested between these years). Actually, İstanbul has been the most favoured location by foreign investors from 1954. İstanbul seems to give easy access to Europe, and historically, has a traditional link with the pepper route to the eastern world. Additionally, İstanbul has been a commercial and cultural centre from Byzantium up to now. This historical role also affects the FDI, since headquarters of big TNCs preferred to be founded in the cities, which have a cultural and historical prestige in the world. When invested sectors and home countries of TNCs considered in more detail, other chemical industries were the most preferred sector for investment in İstanbul, after that, banking and finance sector were in second order in this period. In case of İstanbul, the top ranking FDI is realized not by a single country of origin, but by a group of countries.

Kocaeli and Bursa were also most invested cities in this period with 255 trillion TL and 371.9 trillion TL respectively. In addition to have local potentials for foreign investment, being in the hinterland of İstanbul is a very important advantage for these cities. Netherlands was the most invested home country and rubber industry and other chemical industries were mostly invested sectors in Kocaeli. On the other hand, French TNCs mostly invested firms to Bursa in motor vehicle industry (Figures IV.III, IV.IV and IV.V).

Ankara, as a capital city attracted the only 2,5 % of total foreign investment and unexpectedly mostly invested sector was motor vehicle industry, rather than service activities. Again Netherlands was the most invested home country between the years 1946-1975.

As an important point locational specialization can be clearly seen in these years' investments. Some of the sectors were located only one city like; iron and steel industry in Zonguldak; hotels and motels were only in İstanbul; agricultural

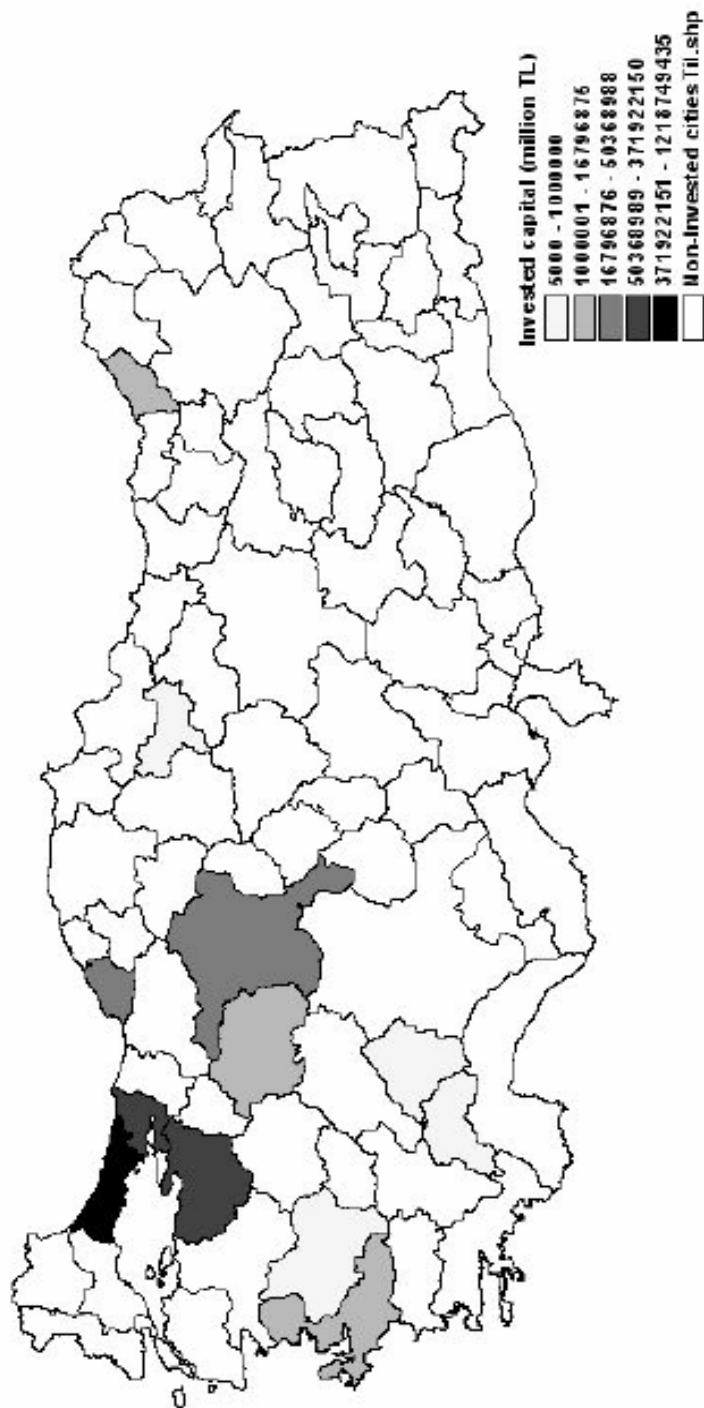


Figure IV.III. Locational distribution of invested capital by TNCs (1946-1975)

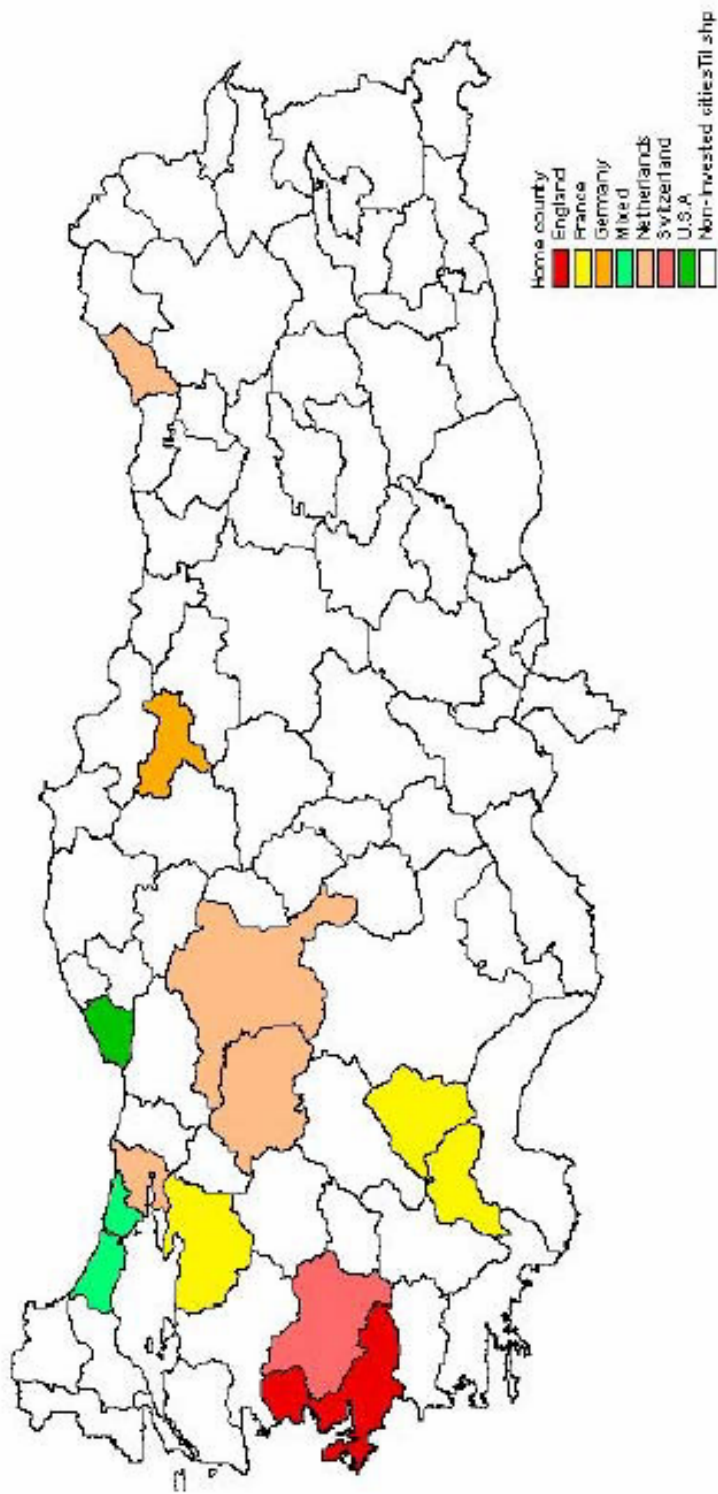


Figure IV.IV. Locational distribution of invested home countries (1946-1975)

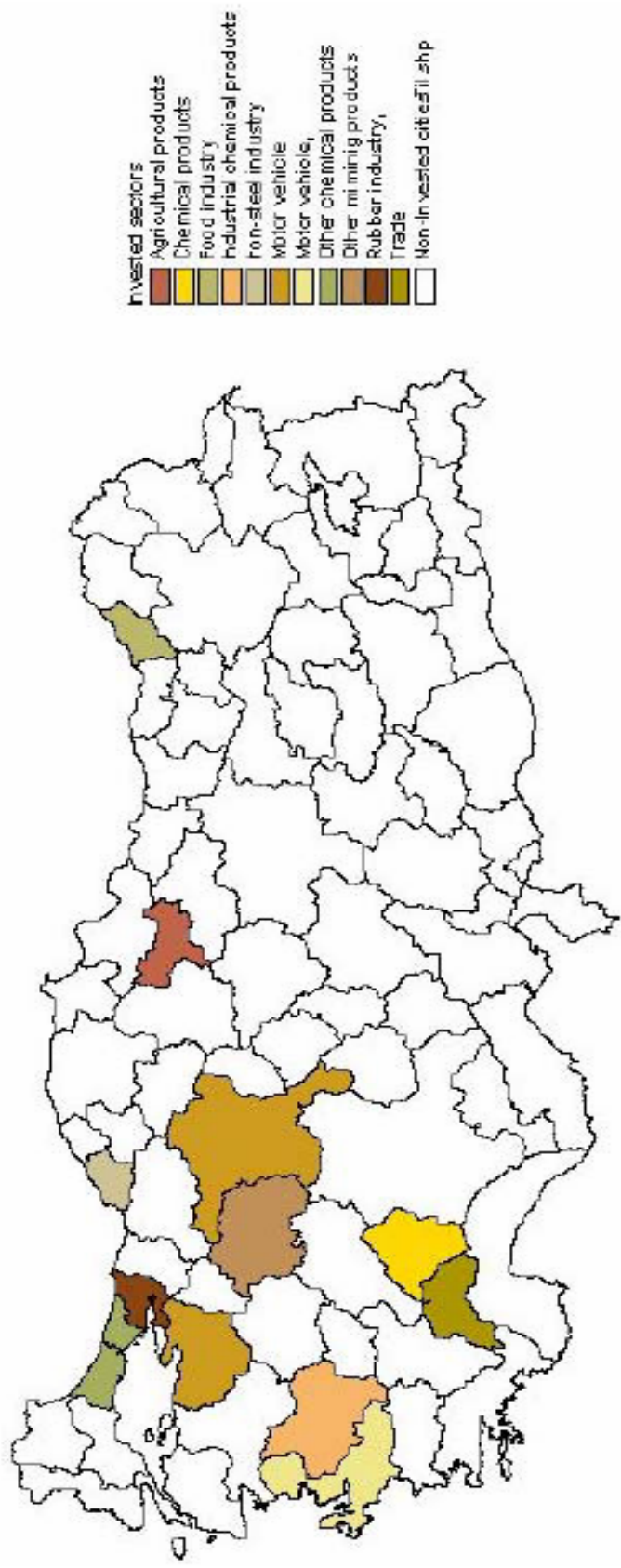


Figure IV.V. Locational distribution of invested sectors by TNCs (1946-1975)

product in Amasya; other mining industry in Eskişehir; textiles and non-iron metallic industry, other manufacturing industry, rubber industry in Kocaeli; and restaurants, hotels, pensions, non-electrical machinery and electronic industry other public services and banking and finance services were located in İstanbul. This specialization shows attractiveness of localities to TNCs by their resources, labour and entrepreneurial capabilities rather than political and institutional structure.

As a conclusion, during these years, foreign investment was generally concentrated in the industrial sector. But its effect on domestic production was very limited, not only for the modest size of FDI entries in proportion to total investment, but also they mostly transferred outdated technologies to the country.

IV.I.III.II. Brief Transition to Free Capital Import and Debt Crises (1975–1979)

The 1970s are the years that caused political, economic and technological transformations both in Turkey and in the world. Migration to the big cities due to mechanization in agricultural sector, occurrence of squatter housing and unstable political environment were the some of the factors, which affected political and economic life of the country, directly or indirectly. All of these changes would have been shaping the future of Turkey.

While Turkey faced a multiple of upheavals the emergence of social and Islamic movement, a petroleum crisis occurred in the world. Until 1974, all economic indicators of Turkey have been in the positive direction, but in 1974, with the consequences of Cyprus Crisis, arms embargo of US, ideologically motivated incidents among university students, and etc., all these positive developments

have been reversed to the negative ones. Foreign trade was also affected and decreased by these events.

The main policy for attracting FDI into Turkey remained more-or-less unchanged between the years 1975-1979, and the FDI entries for the period were rather low. The possibility of finding and using cheap foreign credits in form of Convertible Turkish Lira Deposits (CTLD) led to a postponement of the problems of eventual adjustment needed to cope with high and unsustainable current account deficits; this attitude also did not positively contribute to economic performance either (Kazgan, 1999:129). The reason of the decline in the economic performance of the country is also related to currency speculation with a currency depreciation in sight. Entrepreneurs used these credits to make money not to make production. At the end of the 1978 a foreign exchange crisis was occurred.

Another petroleum crisis broke out in the years 1978 – 1979 in the world. In this uncertain environment, government and undersecretary to the Prime Minister's office, Mr. Turgut Özal, prepared an "economic policy package (announced on 24th January in 1980) to overcome imbalances in goods and factor markets and to take the credits of IMF, OECD and to a minor extent Islamic Capital which appeared to be important after the oil price hike. State Planning Organization considers this package as a "solution to the problems of technology, inadequate saving rate and balance of payments difficulties" (DPT, 1981:67). With the September 12th 1980 Military Operation the first stage of this package was started to be implemented under Özal's supervision. More information related to 24th January package will be given in the next section.

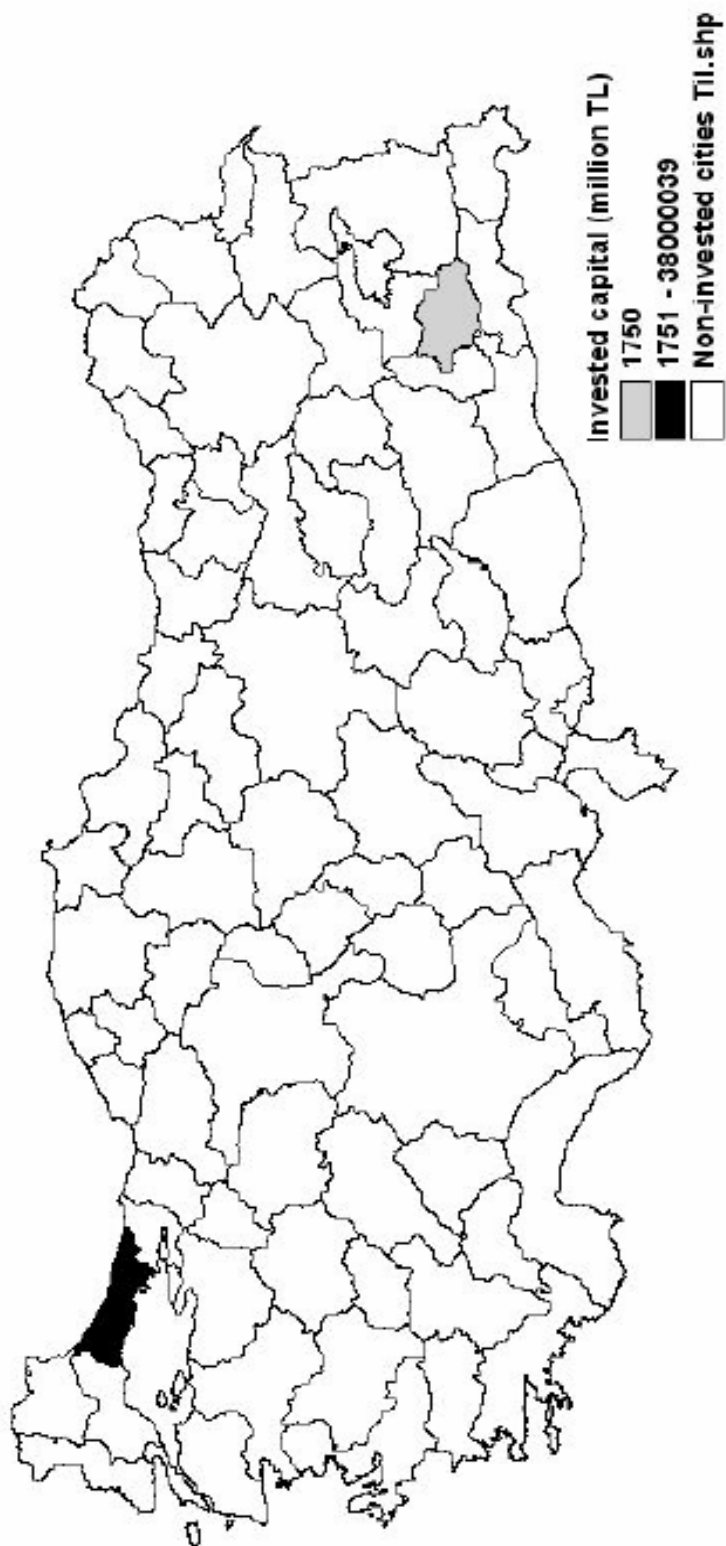


Figure IV.VI. Locational distribution of invested capital by TNCs (1975-1979)

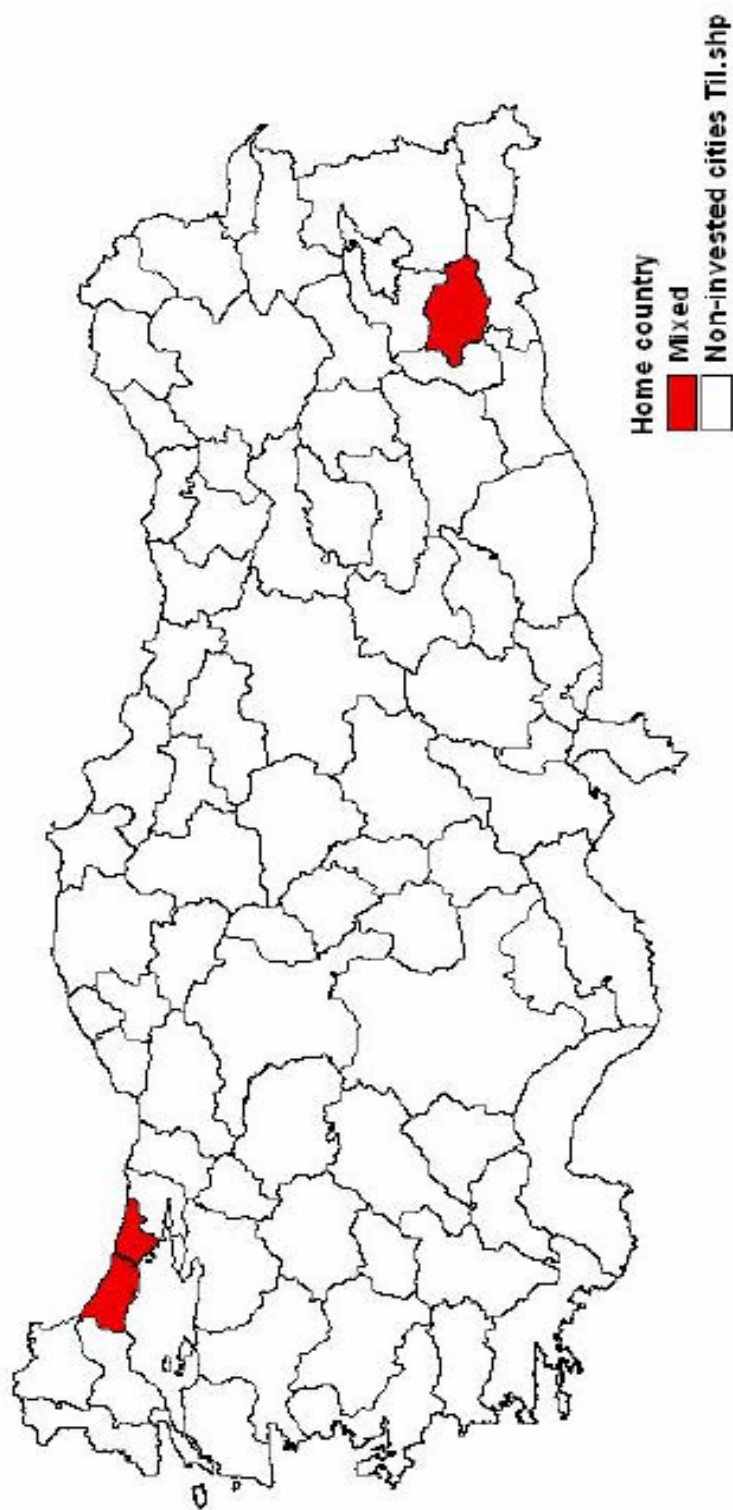


Figure IV.VII. Locational distribution of invested home countries (1975-1979)

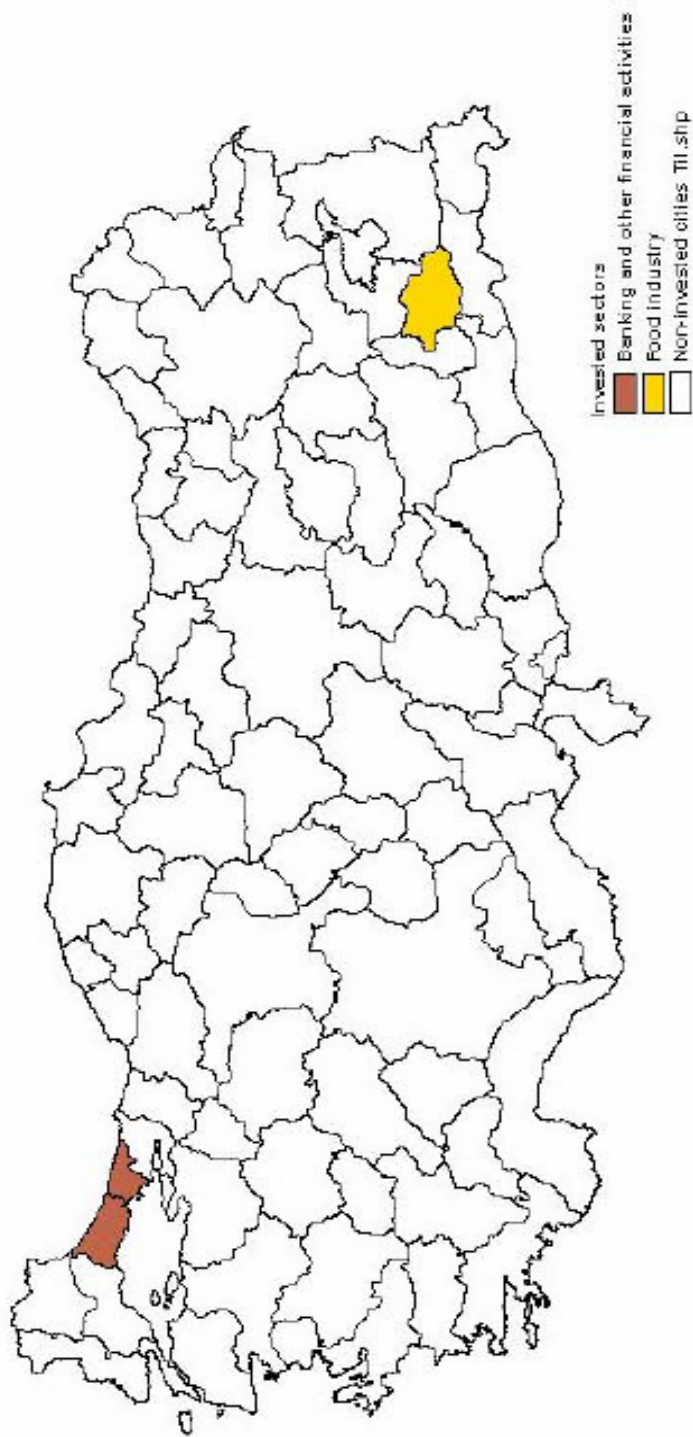


Figure IV.VIII. Locational distribution of invested sectors by TNCs (1975-1979)

The period 1975-1979 is characterised by a very poor showing of industrial FDI in contrast with FDI related with banking and finance. There were only two cities invested in these years: İstanbul and Siirt (Figures IV.VI, IV.VII and IV.VIII). Again İstanbul attracted most of the TNCs (71,4% in terms of invested TNCs' numbers, 99,9% in terms of total invested capital). 99,8% of invested capital to İstanbul was in banking and finance sectors by Libya and Kuwait TNCs. On the other side, Siirt was invested only in food Industry by Saudi Arabian and German TNCs.

IV.I.III.III. Free Mobility Of Goods – Transition To a More Liberalised Economy With 24th January Package (1980 – 1989)

Encouragement of FDI, which was expected to positively contribute to the Turkish economy both in the long run and the short run, was the main policy in these years. All policies about foreign relations, political structures etc. were in line with this policy.

Table IV.V illustrates the distribution of FDI, which were established according to the Act, no: 6224 up to the 31st December 1980. Chemistry was mostly invested sector, one of the reasons of this is, previous investment to this sector during the import substitution policy. As known, during the import substitution policy chemistry was among the highly promoted industries, and so most of the investments were realized to this sector. The highest ratio up to this period can be explained by the past expansion of already existing firms generating a strong foothold in the said industry.

Table IV.V. Distribution of FDI which were established according to the Act no: 6224 up to 1980.

SECTORS	No. of partn.	Foreign capital permitted (million TL)	Distribution among Sectors	Total capital*	% realised FDI as a proportion of FDI permits
INDUSTRY					
Food, beverage, tobacco	7	1.116	11,6	1.915	58,3
Wearing and apparel	1	374	3,9	499	75,0
Paper	1	49	0,5	87	56,0
Tire	3	532	5,5	1.008	52,7
Plastics	1	4	-*	10	38,4
Chemistry	21	954	9,9	1.281	74,5
Glassware	2	226	2,3	2.150	10,5
Transport equipment	8	1.740	18,0	5.460	31,9
Fabricated metal prods.	12	435	4,5	4.345	10,0
Machinery	6	337	3,5	764	44,1
Agricultural machinery	1	18	0,2	70	25,0
Electrical machinery	17	2.391	24,8	5.510	43,4
Cement	1	84	0,9	280	30,0
Construction equipments	3	154	1,6	525	28,0
Industries Total	84	8.414	87,3	23.931	35,2
II. AGRICULTURE	1	1	-*	2	50,0
III. MINING	1	20	0,2	20	100,0
IV. SERVICES					
Tourism	7	385	4,0	679	56,6
Banking	5	809	8,5	3.724	22,0
R & D	2	14	0,1	34	40,0
Total except Industry	16	1.229	12,9	4.459	27,8
GENERAL TOTAL	100	9.643	100,0	28.390	34,0

* Shares, which are below the 1/1000, are not taken into account.

Source: DPT,1981 : 69.

On the other hand, when Figures IV.IX., IV.X and IV.XI are evaluated, an increase in number of TNCs and variation in invested cities and sectors can be observed easily. Almost all of the western part of the country was chosen as an investment location by TNCs. Regional inequalities between western and eastern parts of the country is reflected in locational preferences of TNCs. An important point here is, besides limited public investments in these locations, lack of locational potentials i.e. natural resources, tourism potentials, labour, infrastructure, are also determining factor in foreign investment decision to these regions.

While radical adjustments have been realized in her economic structure, Turkey has started to pay more attention to European Community (EC) than to the US in terms of international economic relations. But the changing social and political structure had to keep away the country from EC. The rejection of Özal's application to EC as a full candidate is an example of this situation.

The 24th January Package gave more attention to foreign private capital investments because it accepted that economic growth was a function of foreign capital. For this reason, legal arrangements, summarized below in chronological order, were realized (Kepenek and Yentürk, 2000:169). *Firstly*, government prepared a Framework Decree for FDI to reduce the bureaucratic procedure for foreign investment. While this decree encourages the small sized enterprises (whose total fixed investment is between 2-50 million \$), it brings the requirement of exporting products that were produced by foreign investors in Turkey. According to this decree, 30 % of food products, 50% of textiles, 60% of forestry products, 40% of transport equipments, which were produced by foreign investors, had to be exported to the foreign countries (Kepenek, Yentürk, 2000:205). With the Act No: 6224 and this decree mentioned above, foreign enterprises were encouraged especially in finance sector, then agriculture,

tourism and other service sectors. As a result of these legal arrangements, the number of foreign firms was increased from 91 (in 1979) to 165 (in 1983) (Nudralı, 1997:18). In 1984, state formulated and put into effect “build/operate/transfer” (BOT) in order to attract foreign capital to the build up of infrastructure. According to these arrangements, a foreign investors’ consortium with public sector entities may be established. But because of the long run gestation of the projects involved, this arrangement could not produce the expected results. *Secondly*, in August 1989, government further liberalised the capital account. With this policy, government permitted for using foreign exchange both in domestic institutions and individual enterprises. As a result of this policy and high financial returns in Turkey, there was an excessive inflow of foreign capital in the early 1990s (Corbo and Hernandez, 1996:64).

Although catching up after 1980 FDI inflows remained modest till 1988, and they later rose to a new height in the 350-850 \$ million range. This had something to do with Turkey’s developed trade relations with the EU and efforts there of to establish a “Single Market”.

Another important point here is that the **locational proximity** is still important in the locational preferences of African and Asian TNCs. For example, Syrian and Jordanian companies mostly preferred Kahramanmaraş, Hatay, İçel, Adana, Gaziantep, and Diyarbakır in addition to İstanbul. On the other hand, European and American TNCs mostly prefer cities, which have large populations and/ or natural and tourism potentials.

In contrast to the previous periods, there was huge increase both in the invested cities, invested capital and invested sectors in this period. Except several eastern Anatolian cities, almost all provinces of the country was chosen as investment locations by foreign entrepreneurs. İstanbul, Kocaeli, Manisa, Kırklareli, İzmir,

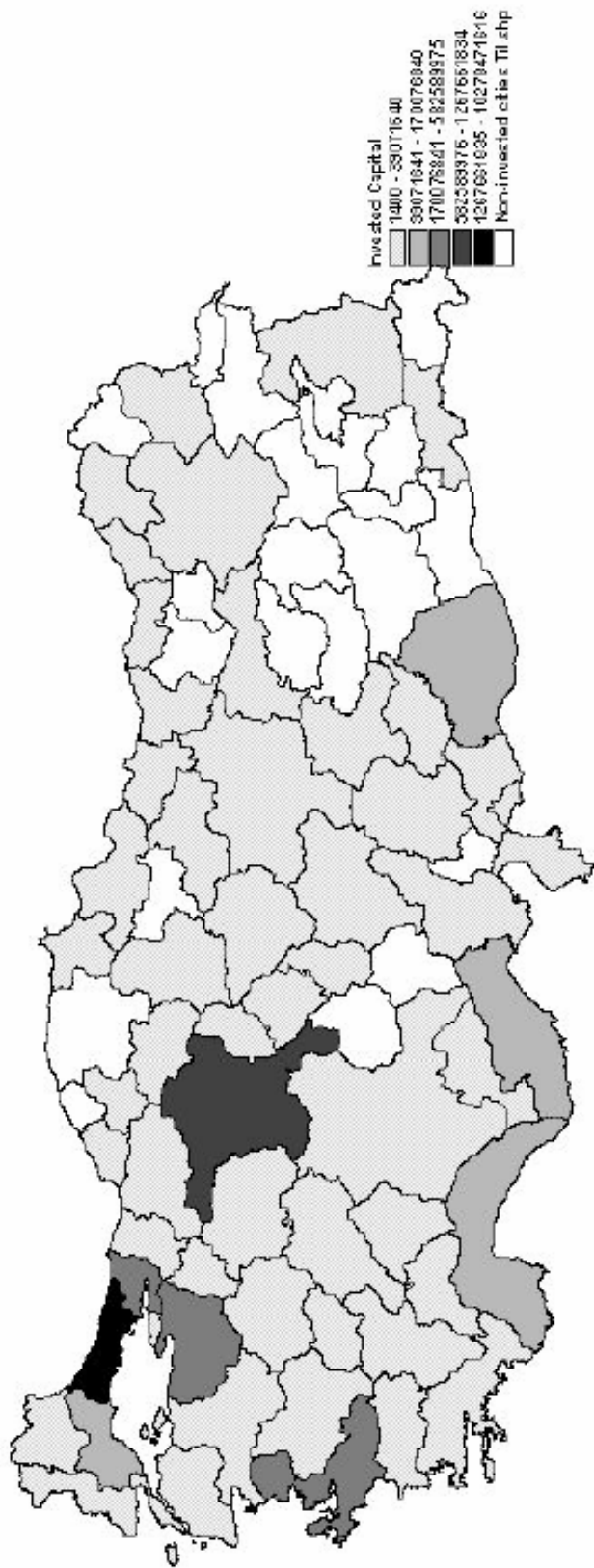


Figure IV.DX. Locational distribution of invested capital by TNCs (1980-1989)

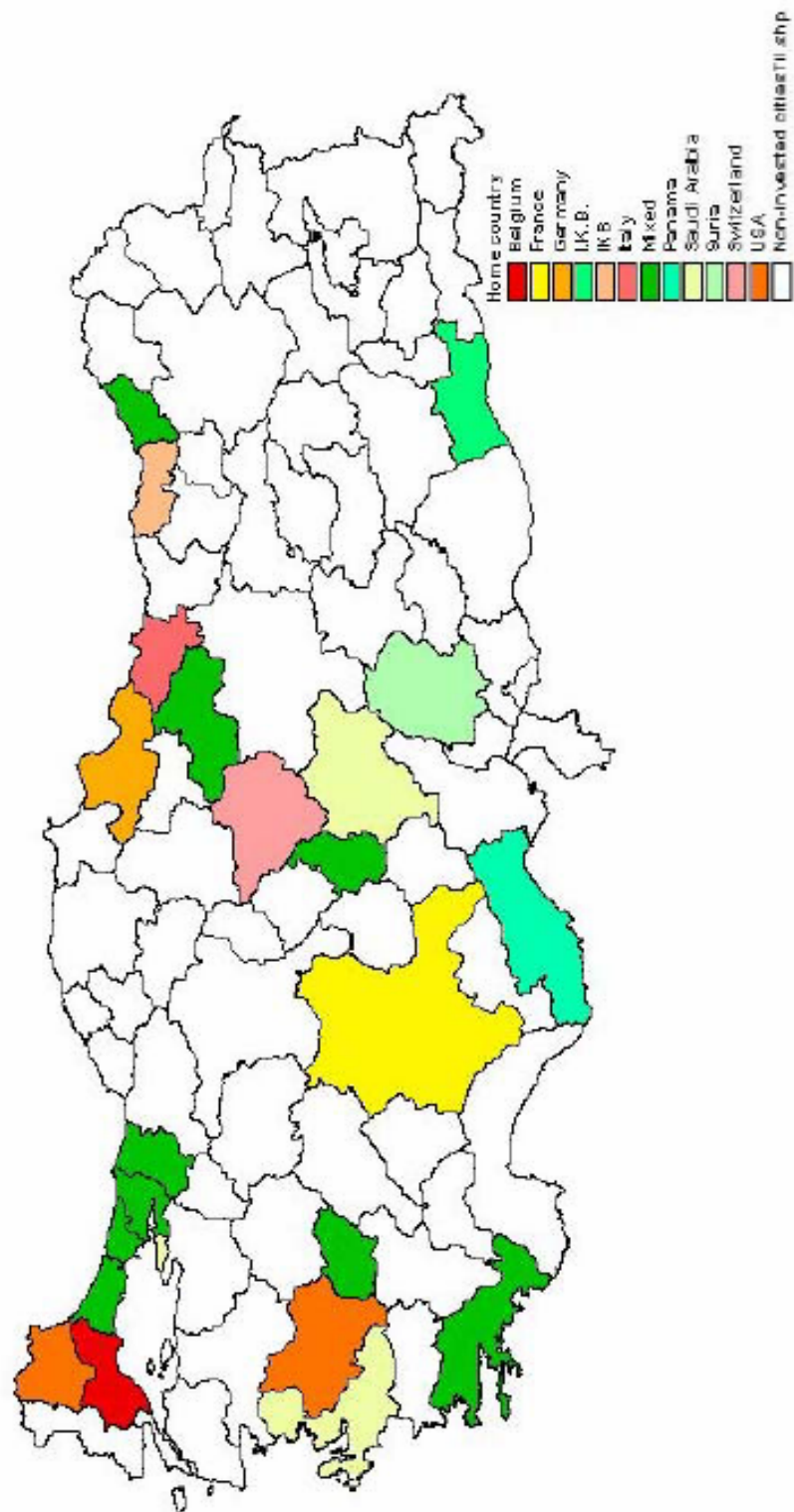


Figure IV.X. Locational distribution of invested home countries (1980-1989)

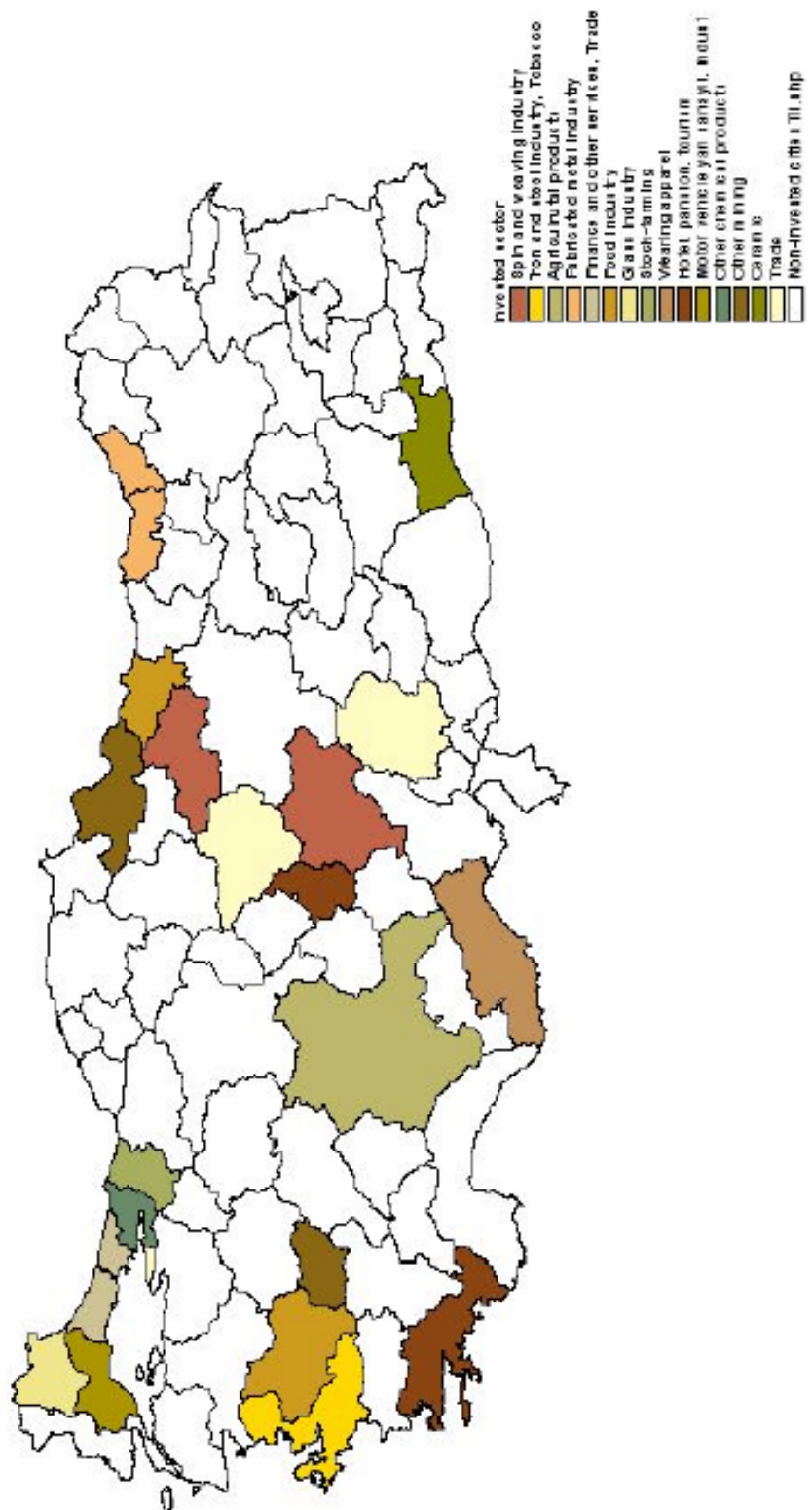


Figure IV.XI. Locational distribution of invested sectors by TNCs (1980-1989)

Eskişehir, Bursa, İçel and Ankara were most preferred cities in that order. As can be seen from the Table IV.VI, again İstanbul attracted 50% of total invested capital (1085.8 trillion TL. of 2114 trillion TL.). Mostly invested sectors were finance and banking and trade and Germany (under the “MIXED” title) was the home country of the majority of FDI. Kocaeli, which takes place in the hinterland of İstanbul, was in the second order in terms of attraction of foreign capital (16,5% of total investment). Other chemical products was mostly invested sector and Netherlands (under the “MIXED” title) accounted for the majority of FDI.

Table IV.VI. Most preferred locations, sectors and investing countries in 1980-1989

Invested city	Total invested capital		Most investing country	Most preferred sector
	(trillion TL)	% in total investment		
Ankara	64.9	2,9	Mixed (Netherlands)	Food industry, Avionics
Bursa	71.9	3,3	Switzerland	Food industry Plane industry,
Eskişehir	76.7	3,5	USA	Manufacturing industry of motor vehicle
İstanbul	1085.8	49,2	Mixed (Germany)	Finance and other services, Trade
İzmir	87.0	3,9	Saudi Arabia	İron and steel industry, Tobacco industry
Kırklareli	97.6	4,4	USA	Glass industry
Kocaeli	363.5	16,5	Mixed (Netherlands)	Other chemical products
Manisa	155.1	7,0	USA	Food industry
İçel	70.1	3,2	Panama	Apparels
Total	2114	93,9	-	-

Source: compiled from “www.treasury.gov.tr”

Interesting investments went to Manisa and Kırklareli, which were not chosen as investment locations before. Huge amount of the investments were realized by only one country and on one sector. This situation can be interpreted as an “TNC-local” interaction, i.e. either *local sources* attracted foreign entrepreneurs or any *existing relationship* between TNC and local partners caused these investments. For example; approximately 88% of total investment came from an American TNC (Coca-Cola) on the food industry in Manisa. On the other hand, 100% of total capital investment came from again an American based TNC (Trakya Cam Sanayii) and on glass industry.

Despite being a capital city, Ankara only attracted 3% of the total invested capital in this period. Mostly invested sector were food industry and avionics and mostly invested country was Netherlands (under the “MIXED” title).

As mentioned above, this period is critical in terms of invested sectors, and investment locations. Parallel to the developments in the world, in addition to investments in industrial sectors, service sectors’ investments were increased sharply and some of the sectors like, glass industry, printing and especially personal services were invested in the first time in these years.

Experiences from different countries show that, arrangements to attract the foreign capital were not necessarily successful, since all these policies were prepared with a view to increase foreign capital inflow at any cost foreign currency, which could not affect production facilities directly. This scenes to be the case in Turkey. Although almost all economic activities were opened to the foreign capital with 24th January package, this was not sufficient to support the efforts for economic growth.

IV.I.IV. The fourth period: The Global World Market and Integration to the Newly Emerged Networks (The 1990s)

The 1990s were the years in which radical changes have occurred in the world order. USSR was disintegrated on the one hand, and Eastern European block was collapsed on the other. Certainly these two events had repercussions in the political, economic and social structures of Turkey like other countries in the world. The bipolar world structure was no more relevant, so there were no more two different camps that countries had to be closely affiliated. Instead the US and the economic organizations under its influence dominated the world economic scene. The affiliation to these organizations has both advantages and disadvantages. This dialectic can be evaluated as reflection of hegemonic relations. The world has become more and more competitive and global.

In this competitive and global world market, all economic activities are realized more freely -like movement of goods, factors and ideas in borderless space (Castells, 1996:283). With the establishment of new economic organizations, new networks emerged and the role of nation-state has changed. The world has become as "flow of space" because cross-border flows of capital, products, people and money are determining the new economic space (Harvey, 1989:213).

Nonetheless, there is a discussion at the concept of "borderless space" in terms of the role of "nation-state". Actually, according to the globalists, the "power" of nation-state is decreasing in this globalized world. Hirst and Thompson (1996:67) assume that "the power of nation-state as administrative and policy-making agencies has declined, while the state's role as an economic manager is decreasing". On the other hand, there are researchers who argue that the role of nation-state has been "changing" in these years. Weiss (1996:3) concerns the adaptability of states, their differential capacity, and the enhanced importance of

state power in the new international environment. Actually, the role of *state* in the economic life is still *important* in Turkey. During the 1990s state introduced a set of policies to integrate herself into the global world market.

Turkey has signed the Act of GATT Uruguay Round in 1993. This international act creates new hegemony/or monopoly in the capitalist world, since it internationalize the regime of “intellectual property rights”. As mentioned before, integrating to this type of organization brings both advantages and responsibilities to the candidates, so Turkey had responsibilities to this organization. On other side, because of the promises, which were given to the EC, Turkey had to decrease the tariff rates on commodities by 10% each year during the period 1989 – 1992. Furthermore, Turkey promised to adopt the Common Customs Tariff of the Community over time (Togan, 1994:27) and adhered to this tariff regime in 1996 by the eventual Customs Union Agreement between Turkey and the EU. With the effect of these developments the ratio of foreign trade in GNP increased from 15% to 45% from 1980 to 1990 (Kazgan, 1999:180).

Parallel to trade liberalization, “Export Processing Zones” (EPZs), policy is again taken into consideration in 1985 (after the unsatisfactory experience of 1927 and 1950) so as to create an attractive investment area for the foreign enterprises. The first EPZ was founded in Mersin, after that there were twelve more EPZs (in Antalya, Ege, İstanbul-Atatürk Airport, Trabzon, İstanbul -Leather, East Anatolia, Mardin, İMKB, Menkul Kıymetler, İzmir -Menemen Leather, Rize, Samsun and Çatalca) were established in ten years. In 1998 there were seven new EPZ waiting to be established (Gözlem, 1998:6). The number of the foreign firms in these regions in 1998 is 1541, whereas the number of domestic firms is 314. These regions are accepted by many researchers as a paradise for foreign investors because of substantial reduction in duties and diminished bureaucratic

procedures. According to these researchers, these are the regions in which state is disappeared (Kazgan, 1999:183), because limitations/taxes are tried to be kept at minimum levels so as to encourage foreign capital to established facilities in these zones.

The distribution of FDI across sectors can be seen from the Table IV.VII. This summary information about foreign investments in these years shows that, foreign enterprises mostly prefer to invest in manufacturing industry (56,9 %). On the other hand, sector in second rank of preference is services during these years (40,5 %). 1980 is the year in which the highest percentage of investment in manufacturing sector was realized.

The distribution of FDI among home countries between the years 1980-1998 is given in Table IV.VIII. According to the table, the highest sums of investment come from France with 5.212,82 million \$. The number of US, and Netherlands are very close to each other and they are in the second rank with 2.718,16 million \$ and 2.705,13 million \$. Germany, Switzerland, UK, Italy and Japan are other countries that have high amount of investments.

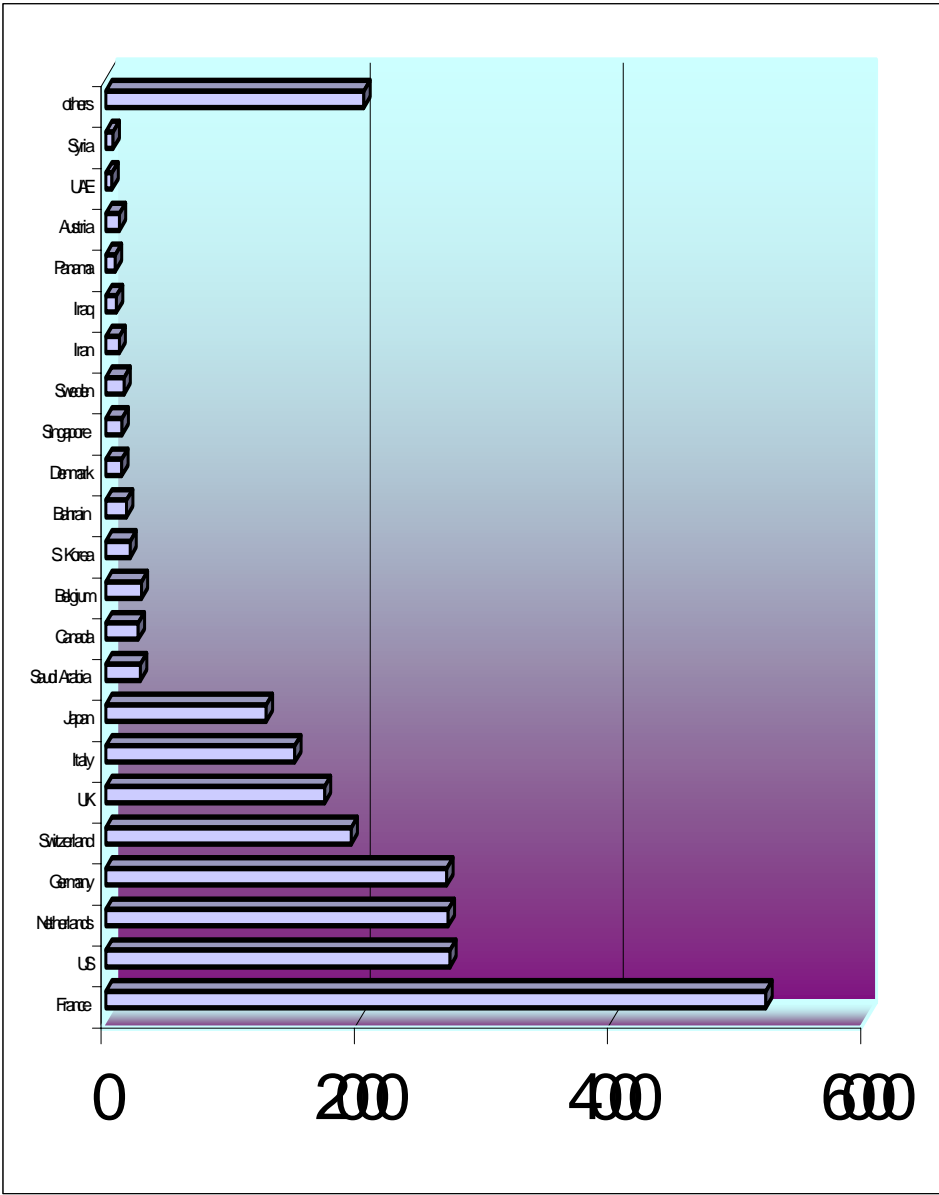
Table IV.VIII. Distribution of Foreign investment in terms of Sectors

Years	Manufacturing		Agriculture		Mining		Services		TOTAL	Realise FDI
	\$	%	\$	%	\$	%	\$	%		
1980	88,76	91,51	0,00	0,00	0,00	0,00	8,24	8,49	97,00	35
1981	246,54	73,05	0,86	0,25	0,98	0,29	89,13	26,41	337,51	141
1982	98,54	59,01	1,06	0,63	1,97	1,18	65,43	39,18	167,00	103
1983	88,93	86,56	0,03	0,03	0,02	0,02	13,76	13,39	102,74	87
1984	185,92	68,51	5,93	2,19	0,25	0,09	79,26	29,21	271,36	162
1985	142,89	60,94	6,37	2,72	4,26	1,82	80,97	34,53	234,49	158
1986	193,47	53,15	16,86	4,63	0,86	0,24	152,81	41,98	364,00	170
1987	293,91	44,86	13,00	1,98	1,25	0,19	347,08	52,97	655,24	239
1988	490,68	59,80	27,35	3,33	5,62	0,68	296,87	36,18	820,52	488
1989	950,13	62,84	9,36	0,62	11,86	0,78	540,59	35,75	1.511,94	855
1990	1.214,06	65,23	65,56	3,52	47,09	2,53	534,45	28,72	1.861,16	1.005
1991	1.095,48	55,69	22,41	1-14	39,82	2,02	809,55	41,15	1.967,26	1.041
1992	1.274,28	70,02	33,59	1,85	18,96	1,04	493,13	27,10	1.819,96	1.242
1993	1.568,59	76,02	21,05	1,02	11,37	0,55	462,38	22,41	2.063,39	1.016
1994	1.107,29	74,94	28,27	1,91	6,20	0,42	335,85	22,73	1.477,61	830
1995	1.996,48	67,95	31,74	1,08	60,62	2,06	849,48	28,91	2.938,32	1.127
1996*	640,59	16,70	64,10	1,67	8,54	0,22	3.123,74	81,41	3.836,97	964
1997	871,81	51,95	12,22	0,73	26,70	1,59	767,48	45,73	1.678,21	1.032
1998	1.021,00	62,04	5,75	0,35	13,73	0,83	605,29	36,78	1.645,77	539
TOTAL	13.569,35	56,89	365,51	1,53	260,10	1,09	9.655,49	40,48	23.850,45	11.234

* including French investment for the Project of Istanbul-Silivri.

Source: YASED, 1998: 7.

Table IV.VIII. Distribution of Foreign Investment by Countries Between the Years 1980-1998*



* including French investment for the Project of Istanbul-Silivri.

Source: YASED, 1998: 9.

It can be useful to analyse the position of Turkey in globalisation process of capital, with its foreign policy implications (Table IV.IX).

Table IV.IX. Capital Flows to Turkey and to Other Developing Countries

	Capital flows (million \$) to		Share of Capital Flows to Turkey as a proportion to Developing Countries	
	Turkey		(%)	
	1990	1996	1990	1996
Net Total Capital flow	1782	5635	4,3	3,1
Foreign direct investment	684	722	3,6	1,0
Portfolio investment	597	1578	1,9	3,5
Stock share	35	799	1,6	2,1
Banking & trade credits	466	2536	5,7	8,1

Source: World Bank, 1997:46.

Table IV.IX does not only show the capital flows and the share of Turkey among other developing countries, but also gives an indication about the place of Turkey in the globalisation process. As can be seen from the table, the share of Turkey in net total capital flow was decreasing from 4,3% to 3,1% between the years 1990-1996. Fact that Turkey's share in expanding worldwide FDI flows fell, while in absolute terms FDI to Turkey had a tendency to rise. The reduction in the attractiveness of FDI is caused by the policies of which transform the country as an open market. As a result, foreign enterprises prefer to sell their products rather than invest to the country (Kazgan, 1999:206). Moreover, another reason of this decline is the average size and capacity of these FDI's. In Table IV.X the extent of FDI contribution is given with reference to 500 largest firms which are affiliated to İstanbul Chamber of Industry (ICI). Actually, the number of foreign firms is decreasing from the big firms to small ones.

Table IV.X Distribution of Foreign Firms in Total in 1997

Foreign firms in	Number
The top 100 firms	41
The top 200 firms	23
The top 300 firms	22
The top 400 firms	16
The top 500 firms	17
The average of them after big 500 firms	12

Source: Kazgan, 1999:207.

Table IV.XI shows the sectoral breakdown of foreign firms in Turkey with regard to their invested capital, sector's share in total foreign capital and sector's share in total capital in 1999. As can be seen from the table, in 1999 there were 4655 foreign firms in Turkey. Firms operating in service sector constitute the largest share among these firms, and their share in total foreign capital were 57,34%. Among the countries invested in Turkey, France, the United States, Germany, the Netherlands and Switzerland were the first five countries whose investments have constituted the greatest shares in total FDI inflows to Turkey from 1980 to 1999 (see Undersecretary of Treasury web page).

Table IV.XI. Sectoral Breakdown of Foreign Firms in Turkey in 1999

Sectors	No. of firms	Total foreign capital (trillion TL)	Share in total foreign capital (%)	Total capital of firms (trillion TL)	Foreign capital in total capital
Agriculture	103	2.0	0,4	5.3	36,5
Mining	65	6.4	1,2	9.3	64,3
Manufacturing	1148	224.4	41,1	437.6	51,3
Services	3340	312.8	57,3	466.0	67,1
Total	4656	545.6	100,00	918.9	59,4

Source: Unpublished data of Undersecretary of Treasury

In the process of globalization of capital, due to unstable market conditions (which is also related to political instability in Turkey), foreign enterprises prefer to invest in sectors, which are likely to bring high profit rates in the short-run.

After 1990, almost all provinces of the country turned out to be investment locations, excluding Eastern Anatolian cities and several Black Sea Region's cities. Total invested capital between 1990-2003 is 19260 trillion TL and 99,6% of these investments went to the 16 cities in Table IV.XII. Actually, there are two different locational concentration can be seen from the Figures IV.XII, IV.XIII and IV.XIV. The first one is the metropolitan cities and their hinterlands, like İstanbul, Ankara, İzmir and their hinterlands and the second one is the costal zones, namely, Mediterranean and Black sea region.

Table IV.XII. Mostly invested cities, invested sectors and home countries after 1990

Invested city	Total invested capital		Most investing country	Most preferred sector
	(trillionTL)	% in total investment		
Adana	34.9	0,2	Netherlands	Other industrial products
Ankara	2268.7	11,8	Belgium	Energy
Antalya	140.3	0,7	Germany	Hotels
Bursa	544.9	2,8	Spain	Iron and steel
Çorum	14.5	0,1	England	Auto parts industries
Denizli	11.5	0,1	England	Other industrial products
Eskişehir	22.2	0,1	Liechtenstein	Cement
İçel	85.3	0,4	Germany	Auto parts industries
İstanbul	14009.3	72,7	Israel	Textiles
İzmir	441.5	2,3	England	Banking and other finan. services
Kayseri	10.2	0,1	Mixed	Investment finance
Kocaeli	885.2	4,6	Switzerland	Textiles
Manisa	107.0	0,6	Japan	Auto parts industries
Muğla	14.5	0,1	Germany	Measurment & control equip., Optical equip.
Sakarya	459.8	2,4	Germany	Other social services
Tekirdağ	129.7	0,7	Japan	Auto parts industries
Total	19247.0	99,7	Mixed	Energy
General Total	19259.7	100,0	-	-

Source: compiled from "www.treasury.gov.tr"

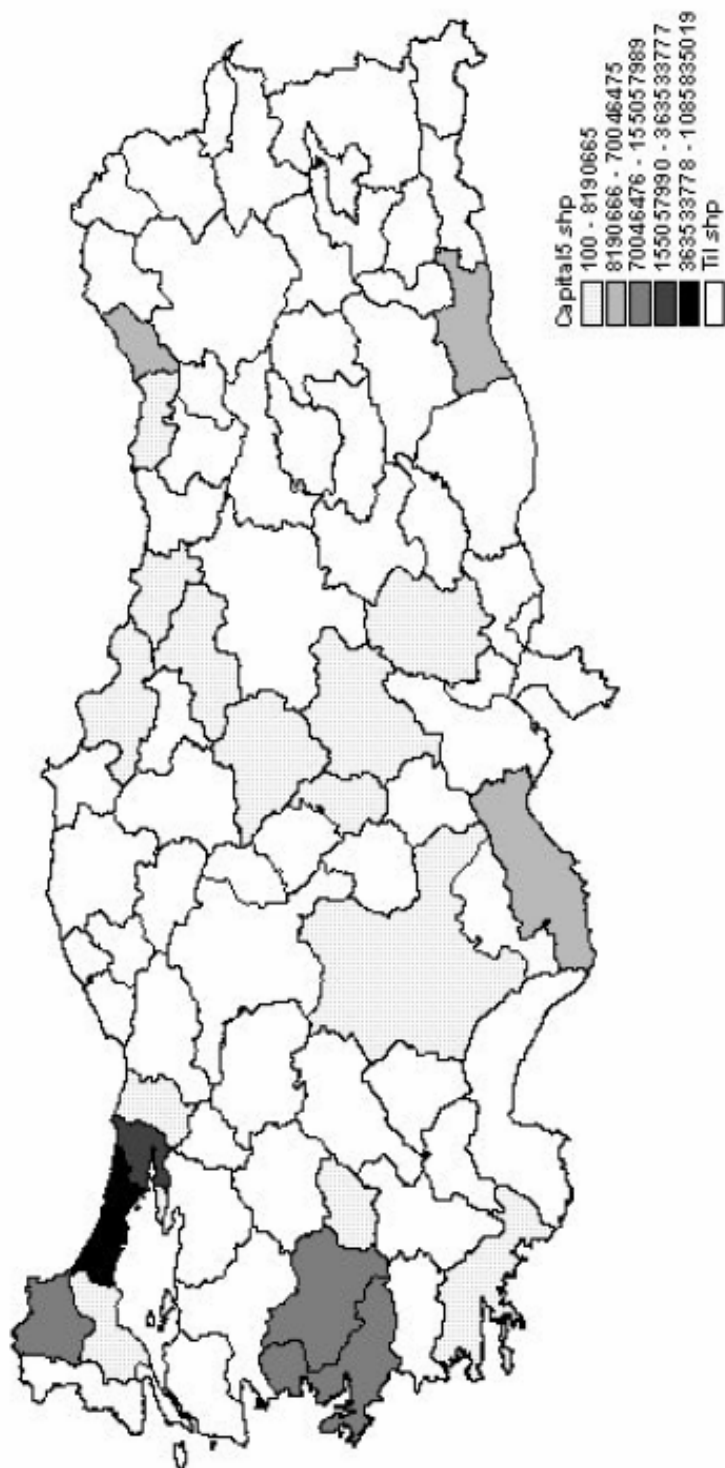


Figure IV.XII. Locational distribution of invested capital by TNCs after 1990

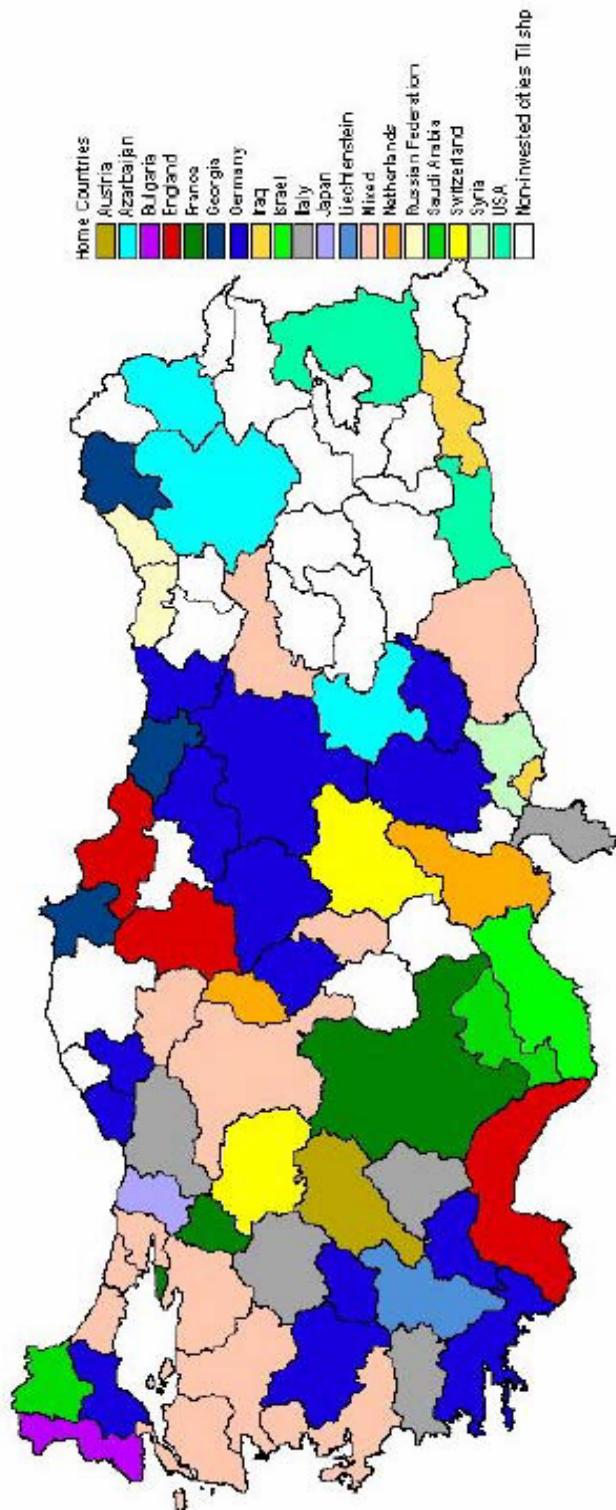


Figure IV.XIII. Locational distribution of invested home countries after 1990

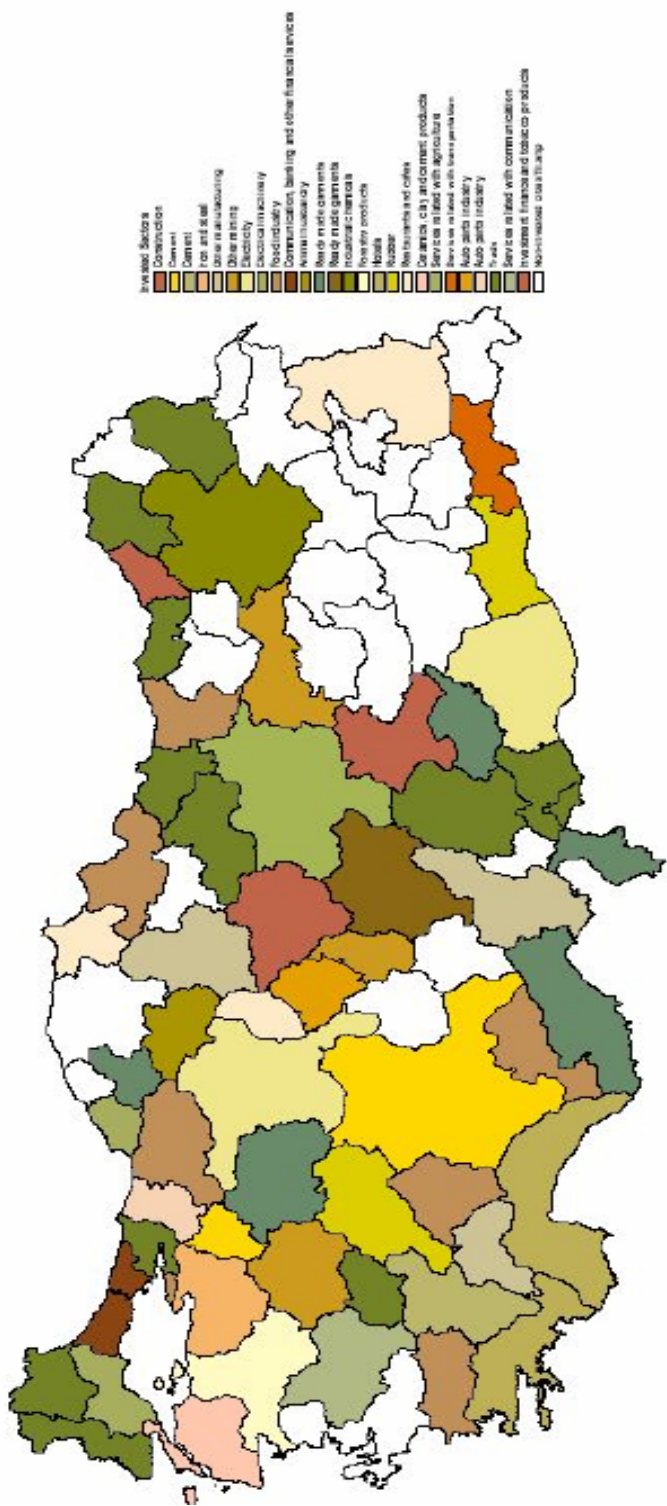


Figure IV.XIV. Locational distribution of invested sectors by TNCs after 1990

İstanbul and its hinterland again attracted most of the TNCs with 82,6% of total invested capital after 1990. Indeed, 72,7% of these investment went to İstanbul as a reflection of continuation of past locational preferences. Kocaeli, Bursa and Sakarya, which take place in the hinterland of İstanbul, attract most of the TNCs' capital. While İstanbul is mostly selected for service sectors (Banking and other financial services), its hinterland is generally selected for manufacturing activities, like auto parts industries. Bursa; in addition to the auto parts industries, has also been a location for iron and steel industry. This sectoral difference between İstanbul and its hinterland can be explained by a new spatial division of labour which carry manufacturing activities from İstanbul to its hinterland. As a result of the historical role of İstanbul head offices of TNCs concentrated in that city on the other hand their manufacturing areas generally take place in its hinterland. Of course the locational preferences of manufacturing site is depend on lots of criterion, but most of the TNCs which are engaged on automotive, auto parts industries, and etc. take place in this region whose sectoral specialization is on these sectors.

Ankara and its hinterland attracted 12,1% of total TNCs investments after 1990. In spite of being a capital city, Ankara's capacity to attract TNCs is very limited as compared to İstanbul (72,7%). Another important invested cities are located Mediterranean and Black Sea costs. As can be understood from these investments tourism potentials of Mediterranean regions and agricultural potential of Black Sea (especially tea and nuts) are the main factor affecting TNCs locational preferences.

Figure IV.XII illustrates the relationship between home countries of TNCs and locational preferences of them. Germany and "Mixed" are mostly invested home countries after 1990. Germany generally prefers to invest middle-eastern and eastern Anatolia, unlikely, "Mixed" are concentrated on south-eastern and

eastern Marmara, Aegean and Central Anatolia regions. Actually there are important points have to be mentioned: the preference of one home country towards a specific region as a result of ethnical tie and/or spatial proximity between home country and the city. For example Georgia, who has ethnical ties especially with Artvin, mostly prefers to invest in that city. As known, Artvin has a lot of citizen of Georgian origin so this relationship is very critical in foreign investments. On the other hand, Iraq mostly invested in Şırnak, Russian Federation in Rize and Trabzon, Azerbaijan in Malatya, Erzurum and Kars, and Israel in İçel. The meaning of spatial proximity can easily be understood from these examples. While Iraq prefers to invest Şırnak, which is close to her, Russian Federation prefers Rize and Trabzon, which are located in the Black Sea region.

This national and city level analyses shows that Turkey as a developing country has attracted most of developed (especially European) countries and İstanbul is the mostly invested city compared the other parts of the country. Additionally, investments are generally concentrated on coastal regions, and regions with reach raw materials. As a summation, these analyses proves that spatial proximity and ethnical ties between home and host country and other local potentials are among the most important reasons affecting locational preferences of foreign companies.

IV.II. LOCAL EMBEDDEDNESS OF TNCs IN İSTANBUL

In this section, firm level analyses realized in İstanbul and their results are discussed with reference to the developed countries experiences .

IV.II.I. Local embeddedness of TNCs in Turkey and in İstanbul

General characteristics of TNCs in İstanbul will be analyzed deeply with reference to TNCs in Turkey to understand the relative position of İstanbul. Some of the characteristics analyzed here are establishment year, sectoral distribution, home country and ownership ratio, which give clues both for local embeddedness and general characteristics of TNCs in İstanbul and in Turkey.

Establishment Year: There are 9749 TNCs in Turkey established up to now and 75,4% (in terms of invested capital and 63,3% in terms number) of them are realized in İstanbul (see Table IV.XIV). When the number and invested capital of TNCs are analysed according to the different periods of time, it can not be said much about first two period since there is no available data for these periods (up to 1923 and between 1924 and 1945). The only data obtained about these years is that there is only two registered investment and one of them was realized to İstanbul.

The third period is analysed under three sub-periods; 1945-1974, 1975-1979 and 1980-1989. As mentioned previous sections, these periods are determined according to the political developments in Turkey. İstanbul again attracted most of the TNCs investment in Turkey. 90,8% in the first sub-period, 100% in the second sub-period and 78,8% of total investment went to İstanbul in the last sub-period.

The fourth and the last period is attracted 7772 TNCs with 19.3 quadrillion TL. foreign capital. 63% of these TNCs (as number) is realized in İstanbul which is equal to the 72,7% in terms of invested capital. It can be said that the most of FDI is realized after 1990 and the share of İstanbul in these investments is always on the top compared to the other cities in the country.

Sectoral Distribution: Table IV.XIII illustrates the sectoral characteristics of TNCs in İstanbul and in Turkey. The service sector comes first both in terms of number of established TNCs (69,7%) and invested capital (49,6%) in Turkey. After that industrial activity, agriculture and mining are taken place in due order. As mentioned in Chapter II, service sector is one of the most important sectors in terms of value added levels that is also very critical for local embeddedness of TNCs. Thus, this agglomeration on the service sector among the whole country gives some clues for embeddedness possibilities in near future.

Table IV.XIII. Sectoral characteristics of TNCs in İstanbul and in Turkey

	Industry		Agriculture		Mining		Services	
	# (%)	Capital(%)	# (%)	Capital (%)	# (%)	Capital(%)	# (%)	Capital(%)
Turkey	26,4	41,5	2,3	3,6	0,02	0,5	69,7	49,6
İstanbul	25,2	33,3	1,3	1,5	1,4	1,4	72,2	63,9

As can be seen from the table above, an interesting point here is that, the percentage of number of TNCs in service sector is almost three times above the industry sector whereas there is a very slim difference between their invested capital percentages. This situation can be explained by the nature of service sector that is mostly constituted by small and middle companies.

In parallel to Turkey, TNCs in İstanbul, again are mostly engaged in service sector. Actually 72,2% of established TNCs and 63,9% of invested capital to Turkey are realized in service sector in İstanbul. On the other hand, the percentage of total invested capital in industry sector in Turkey is 41,5% and the share of TNCs in İstanbul in that is only 33,3 %. The share of İstanbul in

Table IV.XIV. Establishment years of TNCs in Turkey and in Istanbul

	1 st Period (- - 1923)				2 nd Period (1924-1945)				3 rd period (1946-1990)									
	Invested Capital		# of firms		Invested Capital		# of firms		Invested Capital		# of firms							
	#	%	#	%	trillion TL.	%	#	%	trillion TL.	%	#	%						
Turkey	n.a.	n.a.	2	100	n.a.	n.a.	92	100	2191.0	100	7	100	40.0	100	1928	100	4876.8	100
Istanbul	n.a.	n.a.	1	50	n.a.	n.a.	68	74	1989.7	90.8	7	100	40.0	100	1208	63	3840.3	78.8

Table IV.XV. Home countries of TNCs in Turkey and in Istanbul

	OECD COUNTRIES						ISLAMIC COUNTRIES						EASTERN EUROPEAN COUNTRIES						OTHER COUNTRIES											
	EU						OTHER OECD COUNTRIES																							
	#	%	Invested Capital	%	#	%	#	%	Invested Capital	%	#	%	#	%	Invested Capital	%	#	%	#	%	Invested Capital	%	#	%	#	%	Invested Capital	%		
Turkey	3727	38,2	10591.7	40,2	1128	11,6	4238.6	16,1	1780	18,36	467.2	1,8	808	8,3	132.2	0,5	2306	23,7	10914.5	41,4										
Istanbul	2205	59,2	7745.4	73,1	743	65,9	2888.0	68,1	1119	62,9	213.7	45,7	478	59,2	107.6	81,4	1625	70,5	8902.0	81,6										

Table IV.XVI. Ownership ratios of TNCs in Turkey and in Istanbul

	0 - 25 %				26 - 50 %				51 - 75%				76 - 100%			
	Invested Capital		# of firms		Invested Capital		# of firms		Invested Capital		# of firms		Invested Capital		# of firms	
	#	%	trillion TL.	%	#	%	trillion TL.	%	#	%	trillion TL.	%	#	%	trillion TL.	%
Turkey	2812	28,8	14529.3	57,1	3196	32,8	5593.2	21,6	766	7,9	1526.8	5,9	2975	30,5	4266.9	16,5
Istanbul	1780	63,3	10117.8	69,6	1881	58,9	4986.3	89,2	482	62,9	1151.1	75,4	2025	68,1	3189.6	74,8

agriculture and mining sectors is very limited and it is around 1,5%. All these numbers show the specialization of İstanbul in service sector, rather than other sectors, i.e. industry, agriculture and mining.

Home Country: The distribution of TNCs along with their home countries is prepared parallel to the categories defined by Treasury Ministry; namely OECD countries (including EU), Islamic countries, Eastern European countries and other countries. As can be seen from the Table IV.XV, the share of OECD countries in this distribution is the highest one (56,3%). EU countries as a part of OECD, is in the first rank with 40,2% in terms of invested capital, and other OECD countries share is 16,1%. The highest share of EU countries can be explained by effects of custom union and spatial proximity between EU countries and Turkey.

Other countries, excluding Islamic countries and Eastern European countries, is in the second order with 41,43% in terms of invested capital. The share of Islamic countries and Eastern European countries very low compared the other countries.

When the share of İstanbul in these investments is analysed, it can be said that Eastern European countries and other countries mostly prefer to invest in İstanbul. They have not made major investments in the other parts of the country. On the other hand, the share of İstanbul among Islamic countries' investments is very low in contrast to the others. As known the percentage of Islamic countries' investment is very limited (1,8% as invested capital) they prefer to invest south east and eastern Anatolia, which can be explained not only by spatial proximity but also by ethnical and cultural ties.

Ownership Ratio: The ownership ratio of TNCs in Turkey and in Istanbul is analyzed under four categories: TNCs whose foreign ownership ratio is between 0 – 25 %, between 26 – 50 %, between 51 – 75 %, and more than 75%.

More than half of the TNCs, in terms of invested capital, takes place in the first group in which the foreign ownership ratio is less than 25%. This is an interesting situation when the relationship local embeddedness and ownership ratio is taken into consideration. According to the local embeddedness literature, there are two possible comments about this relationship and their effects on local embeddedness. On the one side, that means there is no huge amount of establishment sunk costs, so TNCs can easily leave the country, on the other side the lower the share of foreign partner, the lower the control mechanism on the local partner. The weak control of home company on the host indicates a higher degree of local embeddedness of TNCs.

When numbers of TNCs in each group is analyzed the highest percentage is in the 76-100%. This controversial situation (the ratio of the number of firms is higher than the ratio of invested capital) can be explained like that, the amount of invested capital by TNCs are very little.

TNCs in Istanbul, are again generally in the first group and that means foreign partners' share is less than 25%. The share of Istanbul in Turkey in terms of ownership ratio, which can easily be seen from the Table IV.XVI, the highest share is in the second group, 25-50%, with 89,2%. That explains the most of the TNCs whose foreign share is between 25-50% are located in Istanbul.

After giving information about TNCs in Turkey and in Istanbul selected cases for deep interview will be examined with reference to local embeddedness in the next section. In order to reach the important points a classification that is offered

in the theoretical explanation of local embeddedness (in Chapter II.III) will be used here; general characteristics, organizational/managerial control and production structure of TNCs .

IV.II.II. General Characteristics of TNCs

This section analyzes the duration, sector, home/host country distance and sunk costs of selected cases. These criteria will be useful in explaining general characteristics of TNCs who have/have not a possibility to become embedded in a location.

As mentioned in previous sections, embeddedness is a process of becoming a part of the structure (Jack and Anderson, 2002: 483). So, the level of TNC embeddedness is generally affected by the length of time in which the affiliate has been a part of the parent corporation (White and Poynter, 1984; Young et al., 1988; Hakanson, 1995; Ivarsson, 2002).

When the selected cases for deep interviews are analyzed, it can be said that the numbers of the cases are very limited for making some general conclusion. But some clues can be obtained to understand the process. Parallel to the increase in the number of TNCs in Turkey and in İstanbul after 1980, the establishment years of the selected cases are generally agglomerated after that year (9/15). The number of the companies which were established before these years are only 6. This increase after 1980, can be explained by transition to the free market economy with 24th January package. All policies about foreign relations, political structures and etc. were prepared parallel to this policy. As a result, it can be said that the parallel relationship between duration of the company and local embeddedness of the firm can only be tested only in 6 TNCs. These 6 TNCs have possibility to be locally embedded with reference to the studies mentioned above.

Table IV.XVII shows that most of the cases are chosen from service *sector* as a reflection of the general trend in Turkey and in the world (9 out of 15). Industrial activities are in the second order with 5/15 and mining is in the last order with 1/15.

Actually, researches argue that the TNCs in service sector have more possibility to be embedded in a location than others (Yeung and Li, 2000; Phelps, 1997). The higher sunk costs and training expenditures have to be paid by TNC in service sector are effective in that decision. Additionally, service sector has higher turnover than other sectors; so once a TNC invested in that sector it wants to wait and see turnover. Thus, it can be said there is a high potential to be locally embedded of these selected cases.

When home countries of the selected TNCs are taken into account in order to clarify the *home country / host country distance* which gives clues for the local embeddedness, it can be said that parallel to the general trend in the country, almost all of the home countries of TNCs are EU countries. The rest of them come from Asian countries and USA. Germany comes first among the cases chosen (5/15). After that, France, Netherlands and USA are in the same position with two cases.

The spatial and familiarity distance between two countries, like historical and cultural ties, political alliances and institutional arrangements between them are most important criterion in the “construction” of this relationship. Whatever the developments in communication and transportation technologies, physical distance is still important in the local embeddedness process. According to the Yeung et al. (2001) geographical distance from host country is a key factor in transaction costs and in establishing control mechanism. Additionally the local embeddedness literature emphasizes the importance of trust among inter-firm

Table IV.XVII. General characteristics of the cases

	Estb. Year ¹	Home Country	Own. Ratio ²	Invested Capital (million TL)	Sector ³	Number of Total Labour	# Foreign Labour
C1	1934/1984	Switzerland	95	5.000	OTHER FACILITIES (Product and system control)	15	0
C2	1958	Germany	99	2.000.000	ELECTRICAL MACHINERY	2266	89
C3	1988	Germany	99	38.000.000	OTHER SOCIAL SERVICES (Retailing)	150	0
C4	1963	Netherlands	99	8.393.000	OTHER MINING	110	0
C5	1990	Netherlands	100	8.000.000	FOOD MANUFACT.	450	0
C6	1971	Japan	100	525	TRADE	75	50
C7	1975	USA	50	2.100.000	OTHER SOCIAL SERVICES (electronic)	121	0
C8	1963	Germany	25	4.800.000	CERAMICS, CLAY & CEMENT PRODUCTS	220	2
C9	1989	England	98	52.500.000	INSURANCE	1580	1
C10	1955	USA	99	300	HOTELS	518	5
C11	1988	France	99	583.371	TRADE	18	0
C12	1989	Russia	47	750	TRADE (sea transportation)	16	5
C13	1985	Germany	66	1.062.029	MEASURING, CONTROL. OPTICAL EQUIPMENT	50	0
C14	1954	Germany	49	19.400.000	OTHER CHEMICAL PRODUCTS	800	0
C15	1990	France	32	19.277.034	CEMENT PRODUCTS	1500	70

¹ establishment year

² ownership ratio of foreign partner

³ Parentheses give detailed information about specialization of the TNC

relations which is usually difficult to achieve over long distances because of the need for face-to-face interaction (Staber, 1996; Phillips and Yeung, 2003; Dayasindhu, 2002; Vellinga,2000; Winter, 2003; Fletcher and Barrett, 2001; Freel, 2002). The spatial proximity between the headquarters of investing TNCs (whose home countries are generally European) and İstanbul, means a high possibility to construct face to face interactions and thus trust among inter-firm relations. From this perspective, local embeddedness of these European TNCs in terms of home/host country distance (spatial) is possible.

The cultural distance between selected TNCs and Turkey is also very important. Bandelj's study (2002) clarifies the role of political alliances, migration, trade, cultural, ethnical and historical ties between investors and host in the embeddedness of TNC. Germany where the largest proportion of Turkish labour force abroad are resident, are the main investing country and that supports the study of Bandelj. On the other hand, customs union between Turkey and EU is also effective in these investments .

Sayer (1982) notes that there is an internal relation between investment and location; hence it is needed to consider literature on *sunk costs* (Clark, 1994; Clark and Wrigley, 1995). Clark and Wrigley (1995) argue that the concept of sunk costs is a crucial one in bridging firm-specific case studies with more abstract notions of spatial fixity. Sunk costs by definition tend to have limited transferability and recoverability and tend to be long-lived. Here, only set-up sunk costs (training costs, acquiring or leasing land and property costs) will be evaluated in selected cases. Company 9, which is in insurance sector, is in the first order among cases in terms of invested capital (52.500.000 million TL). Company 3 engaged in other social services, is in the second order with 38.000.000 million TL. The least invested company is Company 10, with 300 million TL. (capital sunk cost-embeddedness). When the relative position of

these cases in Turkey evaluated it can be said that most of the cases above the average of Turkey (2.077.112 million TL. per firm in total).

IV.II.III. Managerial / Organizational Control

Organizational/managerial control of TNCs will be mentioned under five topics; coordination and control, roles and responsibilities of local partners, ownership structure, re-investment and institutional relations. These issues are the most important topics discussed in the local embeddedness literature.

IV.II.III.I. Coordination and Control

According to the Dicken, et al. (1994), the second important problem of the TNC is the “coordination of overseas activities” after locational preferences. The answers are hidden in TNCs’ integrated network configuration and their capacity to develop flexible coordinating process (inside the firm and outside the firm). Additionally the relationship between ownership structure and control/coordination mechanism is also an important discussion in recent literature. The more the ratio of ownership ratio of headquarter, the more control and strict coordination the headquarter has. From this perspective, decision making process and flexibility of local partner in production process are asked to the respondents. Most of the headquarters do not come together with local partner in decision making process. Only three of the cases’ (Company 7, 8 and 14) the headquarters and local partners commonly decide on important steps for the future of their firms. When the ownership ratios of these three firms are taken into consideration the ratio of foreign partners are less than or equal to 50%, this situation is supported the embeddedness literature that emphasizes “the less the ownership ratio of the headquarter is, the weaker the control and coordination the headquarter has”.

The level of control and coordination by the headquarter can be distinguished in several ways. As an interesting example, Company 7 sells its products accordance to production place of the products. Products, which are developed in home country and they had license, can only be sold in Turkey. In contrast, products developed in Turkey, can be sold wherever the company wants. Case studies show that there is still strict headquarter control on the local partner that brings Kindleberger's "enclave" economy.

IV.II.III.II. Roles and Responsibilities of Local Partners

The contribution of Bartlett and Ghoshal (1989) is that; TNCs in global complex forms are increasingly differentiating *the roles and responsibilities of their national subsidiaries* according to two related dimensions: the strategic importance of the local environment of the firm and the level of local responsibility and capabilities of subsidiary (it can be a strategic leader, contributor, implementer or black tide etc.).According to Bartlett and Ghoshal (1989) the degree of local embeddedness depends on these two dimensions. The more the responsibilities and roles of local subsidiaries, the more locally embedded TNCs.

Respondents are asked about the roles and responsibilities of local subsidiaries. Almost all of the companies' labour force is supplied locally and these labourers occupy very different positions in the companies (from director to technical staff). For example, companies 1, 3, 4, 5, 7, 11 and 13 have no any non-Turkish workers and Turkish workers have very different positions. When the sectors of these companies are considered they are (except company 4) engaged in service sectors. This is very important to rise of local labour force in service activities. By the 1990s most of the Turkish employees were engaged in manufacturing activities in lower positions. This show the rise in the skills and quality of Turkish labour force. Additionally, the roles and responsibilities of local subsidiary started to

increase slightly in recent years. Although these developments related with giving more role and responsibility to local partner are crucial steps for local embeddedness, this is still matching with “enclave” economy.

IV.II.III. III. Ownership structure

The ownership structure has been used as a key indicator measuring the outcome of bargaining between TNC and the local partners (Yeung and Li, 2000). The partner who has the higher ratio of ownership has more control and power in management than others (Brenton, et al., 1999). Having higher ownership ratio impacts coordination and organization of production process that means decrease in the level of local embeddedness as mentioned above. This argument is supported by respondents in selected TNCs. “Coordination and control” section emphasizes that companies (especially Company 7, 8 and 14) which lesser partnership ratios have weaker control and coordination on its local subsidiary, and their local partners have more power in the decision making process. Therefore, it can be said that ownership structure have an impact on the control/coordination of headquarters that is directly related local embeddedness of TNCs.

On the other hand, studies on the innovation and technology spillovers emphasise the importance of ownership ratio in the spread and use of new technology. A positive impact of the R&D intensity on the probability of choosing a wholly owned subsidiary has been generally tested (e.g., Fagre and Wells, 1982; Hennart, 1991a). TNCs with higher ownership ratio have also extra expenditures for technology development/R&D. When selected cases are evaluated there is no direct relationship ownership ratio and R&D expenditure. This proposition is not supported by selected cases in İstanbul.

IV.II.III.IV. Re-Investment

The status and role of a transnational affiliate is closely related to its track record in winning repeat investment. The growing importance of repeat investment is one of a number of changes in the major modes of entry in the foreign owned companies in host countries. Yet comparatively little is known about the intra-corporate processes driving particular rounds of re-investment, the effects of local efforts to influence corporate decisions or the benefits generated within successful regions (Phelps and Fuller, 2000).

Repeat investment was broadly defined in the survey as “any substantial programme of reinvestment in the plant since the initial start-up”. This would include multi-phase projects planned at the time of the initial investment – since these are rarely automatic and may be subject to competition from other companies’ plants. The interview found that 90% of plants in İstanbul had received repeat investment since initial establishment, conforming the importance of this form of development. According to the interviews, TNCs’ re-investments are generally realized as laboratories, production sites, representative offices, etc. They select locations with reference to having an unsupplied market or rich local sources. Of these, about 20% of managers stated that they had involved in this process just in deciding where to locate and in which sector. Therefore, this type of limited involvement indicates that there would seem to be considerable control of the headquarters to secure further rounds of investment.

In some sectors especially in retailing, re-investment program is not explained as a strict principle of the company. Actually, concealing the next investment location is very critical in this sector.

Like all other topics mentioned above, economic crises affected reinvestment programs of the companies. Some of the companies are planning to become smaller rather than to re-invest.

In seeking to establish the key criteria that enable plants to secure further rounds of investment, the survey asked respondents to indicate the most important factors. In broad terms, two groups of factors emerged as most significant. The first group can be seen as internal to the TNC-owned establishments in terms of expertise, spare capacity and plant size. The second group refers to local external factors, and those that appeared most significant were traditional criteria related to cost such as labour rates and skills and the financial incentives offered by central government. In this sense, the kinds of factors determining the distribution of repeat investment seem relatively similar to the criteria that tend to shape initial locational decisions. By contrast, the effects of what can be seen as 'softer' local external factors, such as training and education facilities, opportunities for technology transfer, and links with universities and research institutes, appear to be minimal. Whilst these aspects of the local environment have been strongly emphasized in recent accounts of embeddedness and learning (Amin and Thrift, 1994; Morgan, 1997a; Storper, 1997; Cooke and Morgan, 1998), this finding suggests that local embeddedness is limited, and İstanbul seem to be locked-in to competing for repeat investment on cost-based criteria established at the time of entry.

The main benefits of repeat investment are reported by respondents. The protection or growth of employment was cited by 82% of respondents. Once again, the most important benefits seem to be internal to plants with effects such as, increase in local sourcing and (opportunities for) technology transfer being rather minimal. Here the evidence from İstanbul does not seem to support the recent theoretical argument that processes of learning and collaboration between

firms and local institutions are important in fostering greater TNC embeddedness (Amin and Thrift, 1994; Morgan, 1997a; Cooke and Morgan, 1998).

While data provide little support for strong claims of increasing embeddedness, particularly in terms of the limited technology transfer, the notion of an industrial enclave is not fully compatible with a pattern whereby a relatively large number of firms make use of the local vocational training per annum. This suggests that the idea of the 'extended enclave' provides a more accurate description of evolving relationships between TNCs and regional economies, with links with the local training infrastructure providing one key dimension along which such relationships have been extended.

IV.II.III.V. Institutional Structure

Institutions are very important supporters and/or assistants for TNCs, which want to invest or re-invest to a country in western world. Regional development agencies (RDA), which are given emphasis to last two decades especially in Europe, have very important actors in this context. Attracting foreign investors is one of the aims of these agencies and they serve these TNCs in every aspect related with investment. Turkey whose experience is not enough for RDA, have some difficulties in institutional support to TNCs. The degree of "hardness" (Phelps et al., 2003) of Turkish institutional structure affecting embodied process can be evaluated the answers of the respondents who have or have not relations with local institutions in different levels. For example, Company 5 pointed the importance of these relations like that;

"We come together with universities and local authorities regularly; twice a month with NGOs, once a month with local authorities, four times in a year with universities and twice a year with professional associations. The aim of these gatherings is preparing common projects and seminars (with

universities) and supporting and problem solving (with NGOs). We have also taken place in the establishment of some institutions like "Association of Starch and Glucose Producers".

Similar to Company 5, Company 2 has strong relations with some institutions in Turkey. i.e. environmental NGOs, Association of Foreign Investment (YASED) and professional associations are some of the institutions they are mostly in relation. They have common projects and the company supports social activities, like sports. Company 7¹⁵ as an example for using institutional support in establishment process, undertakes some activities like preparing a common project on "e-state" with NGOs and professional associations, driving researches on new technology with universities and realizing "Urban information systems" with local governments and local firms.

Unlike these companies, Company 1 is one of the clear examples who have very limited relations with local institutions. The company explains their relationship like below;

"We have no strong relationship with institutions here. The only local actors we have contacts (rarely) are local firms. Actually, our aim is neither integration, nor development our relationship with them. We just come here to do our job with our partner and sell our products".

Actually, these completely different positions show that in spite of the limitation in institutional performance (lack of strong RDA, etc.) of Turkey, it is possible to observe strong relations between TNCs and institutions. Some of the TNCs come together with NGOs, professional associations, local governments, etc. frequently for development of new projects, training, seminars, and sometimes for social activities. For example, Company 2, gives financial and organizational

¹⁵ Additionally, this company is also a member of TÜBİSAD

supports for these types of activities, and they prepare annual competitions, sports tournaments, etc.

As can be seen from the table below, there is not any concentration in terms of institutional relations. Corporations are approximately in the same distance to them, so it cannot be said that, any institution is closer to the TNCs than others. On the other hand, the only exceptional position is in the RDA, as a result of weakness of our country on this subject.

Table IV.XVIII. Type and frequency of institutional relations

	Once a week	Once a month	Four times in a year	Twice a year	Once a year	Total
RDA						0
Universities		*	*	**		4
Institutions		*		*	*	3
Local governments		**		*	*	4
NGOs	*	*			*	3
Professional associations		**		*	*	4
Others						0
Total	1	7	1	5	4	18

When the “hardness” of institutional structure of Turkey is re-thought after these examples, it is not possible to say that institutional structure is “hard”, but it is “nearly soft”, as the lack of concrete organizations with funding and formal responsibilities and policies. It is “*nearly*”, because not only informal relations but also formal relations are very important in the sets of relations between economic actors. These discussions show that the institutional structure in Turkey is not so strong or hard, which are give rise to the level of local embeddedness of TNCs. For this reason, it can be said that the degree of local

embeddedness of TNCs in Turkey (or especially selected cases) are “enclave” to their home country in terms of this concept.

IV.II.IV. Production Structure

Production structure of the selected cases will be evaluated in this section under the local sourcing, relations with local actors, skills and training and technology development/R&D activities sub-sections.

IV.II.IV.I. Local Sourcing

Localized backward linkages are most frequently mentioned indicator in the embeddedness literature (Phelps et al., 2003; Phelps, 1997; Barlet and Ghoshol, 1989; Yeung and Li, 1999, 2000; Pavlinek and Smith, 1998; Larsson and Malmberg, 1999; Christerson, 2000; Dicken et al., 1994; Christerson, 2000). Dicken et al. (1994:38) have argued that “probably the most important single indicator of local embeddedness relates to supplier relationship”. The extent of local linkage is important not only directly but in terms of possible indirect employment and other less tangible benefits associated with transactions with local suppliers. For this reason, the degree of local sourcing by foreign-owned firms in host economies has been a long-standing area of concern for both researchers and policy makers. All these researchers found out that, there is a strong and parallel relationship between localized backward linkages and local embeddedness of TNCs.

Our interviews sought to measure levels of local sourcing (in terms of material and labour), to assess how this may have changed in recent years and to test the effects of supply chain initiatives. Responders sourced 91% of material inputs on average locally, in contrast to studies on Europe (especially in UK) (Phelps, 2000). This result is very remarkable in terms of local embeddedness; because

TNCs in İstanbul use intermediate inputs rather than raw materials that means the strength of the local manufacturing sector's capacity.

Actually, as can be observed from interviews, the *sector*, in which TNCs are engaged, is the most significant determining factor for the locational choice of material supply. TNCs, which are engaged in service sector, generally obtain their raw material from their home country and rarely from other countries. Local supply of these demands is very limited in that sector. On the other side, companies, which are engaged heavily in manufacturing and agriculture, prefer using local sources. That shows the high level of local sourcing would appear to reflect the stronger capacity of indigenous manufacturing sector rather than service sector.

Local labour sourcing as another significant determining factor of embeddedness is also important in these companies. As a general trend for TNCs in Turkey, labour is supplied locally. Although some of them have chairmen and directors from their home country, the number of Turkish employees is very large and they are enrolled for very different positions in the company, from chairman to technical staff (see Table IV.XVII) When cases are taken into account there is a parallelism with Turkey. They generally prefer to use local labour force. But some of the firms like companies 2, 6, 8, 10 and 12 have non-Turkish labour. Especially the non-Turkish labour in the Company 6 is approximately 50% of total workforce. This large proportion is caused by managerial and organizational structure in Japanese business culture. From a different perspective, companies 1, 3, 4, 5, 7 do not employ any non-Turkish labour and most of them (except company 4) are engaged in service sectors. This is very important to rise of local labour force in service activities. By the 1990s most of the Turkish employees were engaged in manufacturing activities in lower positions.

Product marketing of these companies is mostly to the İstanbul's environs, to the country and to other countries in that order. As known, geopolitical position of Turkey is very critical and some of the firms, such as Company 1 sells its products to the other Turkic Republics, which have large and unsupplied markets, and some others like Company 4, engaged in mining sector, sells 95% of its product to the other countries. As an interesting example, Company 7 sells its products in accordance to their production place. Products, which are developed in home country and they had license, can only be sold in Turkey. In contrast, products developed in Turkey, can be sold everywhere the company wants. This example shows the management style and control mechanism of the headquarters which is another indicator of the local embeddedness.

When market conditions are asked to respondents, Turkey's market is generally accepted as fully competitive in all sectors. Type of competitor in market is changing according to the ownership ratio of partner firm and sector of the company. For instance, in retailing sector, competitors are generally local companies. On the other side, the higher the ownership ratio of the local partner(s), the more local competitors the firm has. This can be explained, parallel to the increase in the share of local partner of the company, creates more local competitor. Company 2, as an extreme example, national and international competitors in equal strength, although 99% of the firm is foreign-owned. This can be explained by the higher number of local projects which are being realized by the company.

Another important point here is that shrinking in the product market in consequence of economic crises in the country. One of the companies that has been affected by the crises explains their efforts to overcome the crises like below:

".....our company has been affected from economic crises in the country like all other companies. In order to overcome them, we are going to close one of three production sites in the country and we are going to establish one in the Far East. Additionally, the headquarters in Germany decided to decrease general expenditure in the company. That does not mean labour shedding from company, which is the last step according to our principles."....

In response to a question on whether levels of local sourcing had changed over the past five years, 2 companies indicated that there had been no real change, whereas almost twice as many foreign-owned operations had increased levels of local sourcing.

The survey results discussed here suggest that the majority of TNCs correspond more closely to the characteristics of locally embedded plants than (extended) enclaves.

IV.II.IV.II. Relations with Local Actors

Dicken et al. (1994) emphasize the importance of networking among TNC, its local partner and other local suppliers for embeddedness. The effects of local backward linkages (local supply of materials and labour and local supply linkages) on local embeddedness of TNCs is strongly related with using and development potentials of these sources and networking structure among actors. The relationship between local firms and foreign owners is asked to respondents. There is a neither strong nor long-term relation among them in general. Exceptionally, some of them have limited common projects and information transfer.

Decision process in the establishment of the ownership relations is generally realized either through the existence of personal relations or business relations between two firms. The importance of institutional thickness of host country is commonly mentioned in literature (Phelps et al., 2003). As a result of having

“nearly soft” institutional infrastructure there is no direct effects of government, institutions, etc. in terms of establishment of relations or assistance for this ownership process. This is the most important lack of Turkey with reference to other countries. For example;

“...establishment of Company 7 was realized thanks to the previous business relations between two companies (host and home). The local firm (partner firm) was one of the customers in Turkey of foreign firm. After a time as a result of cooperation suggestion of Turkish firm, they started to work together since 1975”.

In order to analyze the level of personal relations between partner companies, the question “why and how often do you see your partner?” is answered by the respondents. Generally almost all of the firms comes together minimum once a month with their local partners. Sometimes partners come together each week but the only aim of these gathering is business. A general trend, selected companies organize different social activities for all local actors.

To sum up, TNCs come together with local actors several times in a year. But these gatherings are for not preparing/developing common projects rather than organization of production and sometimes social activities. That means no real interaction in terms of local economic development. For this reason, this trend can be evaluated as “enclave” with reference to local embeddedness debate.

IV.II.IV.III. Skills and Training

There is some evidence to suggest that recent inward investments (in manufacturing and in service sectors) are generating a demand for new and higher skilled workforce in peripheral regions (Peck and Stone, 1993; Rees and Thomas, 1994; Potter, 1995). TNCs generally do not volunteer to pay for developing labour skills in host country. For this reason, skills and training

facilities are very critical in terms of local embeddedness. TNCs which volunteer to pay for these expenditures have a tendency to become embedded to these localities.

Responses to a survey question on firms' investment in developing workforce skills indicated that an average of 1.3% of sales revenue was spent on training per annum. These figures are less than TNCs in Europe¹⁶. On the other hand, almost all of the TNCs stated that although they have been giving educational/professional seminars to local firms and their local employees, their investment on training had been stable over the last five years. The only reason of this situation is economic crises in Turkey.

"..... to survive to the economic crises realized in Turkey, we had to limit our expenditures. One of the most important and easiest solution for that was to decrease the training expenditures especially on local firms. We did not prefer this type of limitation, but we did not increase our training expenditures either".

In the light of similar statements from respondents, it can be said that, TNC plants offer a limited contribution to the development of work force skills in regional economies. This information lot of purchase on the question of embeddedness.

The survey also included a question on the links between TNC plants and educational establishments and training providers. Here, a substantial proportion of respondents, 37,5%, indicated that they had no involvement with local education and training bodies, relying solely on internal company sources for training requirements. Most of the TNCs which have some form of involvement with local education and training providers, explain their relationship as follows:

¹⁶ For example, according to the studies of Phelps et al. (2003), in UK these figures have risen to 2,45% in Wales, and 2,26% in north east of England.

“we generally use our education programs, but this does not mean we never utilize local education system. But we generally prefer to recruit our labour from important universities in Turkey, such as Boğaziçi University, ITU, METU....”

Actually this type of involvement vary with sectors. Some of the sectors utilize local education system in greater proportion than other sectors. For example, TNCs in manufacturing sector have strong involvement with technical lyceums and vocational colleges from which they supply their technical staff.

Economic crises are the most crucial reason for limiting in education and training activities of TNCs. This situation suggests that the classical investment conditions (labour cost, stable economy, etc.) are still important in Istanbul that brings us the Kindleberger’s “enclave economy” concept.

IV.II.IV.IV. Technology Development/Research and Development Activities

The presence of technology and R&D functions has been widely used as an indicator of an establishment’s embeddedness in host regions, and the lack of such activity has been a long-standing concern amongst researchers and policy makers (Hood and Young, 1976; Thwaites, 1978; Cantwell, 1995; Allen and Thompson, 1997; Howells, 1992; Christerson, 2000). In recent years, the extent to which multinationals are utilizing the technological externalities of host countries, and hence upgrading their investments, has been debated (Cantwell, 1995; Allen and Thompson, 1997) with especially UK studies re-affirming the routine nature of TNC R&D activity. Additionally, the general emphasis on the importance of learning and knowledge transfer to economic development has focused attention on processes of collaboration between leading inward investors and regional universities and research institutes (Howells, 1992). In

this context regional agencies have often sought to broker relationships between industry and the higher education sector (Phelps et al., 2003:32).

Our interviews indicated that although they have no separate R&D department, a high proportion of establishments had some involvement with research, development or design. Of course, engaged sectors of the companies are the most important determining factor in having R&D activities. For some sectors, like information technology, R&D is the major activity for them. But in the interview, respondents were asked whether they possessed important non-manufacturing functions such as research and development, irrespective of their sectors. 90% of establishments interviewed reported they possessed an on-site research and development activities, and 68% of these R&D activities are realized on-site (44%) and/or on parent company (24%) in Turkey. Some of the companies prefer to buy from their home country (18%). Research and development activities in these companies are concentrated on the researches on process adaptation, researches on new processes and design and adaptation of products, in that order.

When we looked the R&D expenditure of the cases, there is no strong distinction from the any other country in the world. The average expenditure for R&D activities is around 0,2-0,4 % of the total sales revenue. Exceptionally, Company 7, which is concentrated on information technologies, spends about 1% for R&D activities annually. This is a relatively high ratio, and according to the Director of the Company,

“the most important aim of our company is to supply the demands of the host country. Some of the software, coming from the home country, is not sufficient or suit host people, an adaptation is required in processing and products. For this aim, we give emphasis on these activities, for example; we collaborate with a German firm, SAP, which enables new levels of business process and technology integration and offers companies a comprehensive solution for managing financial and human resources, operations, and

corporate services, customer relationship management, product life-cycle management, supply chain management, and supplier relationship management in order to increase the sufficiency of our products (software) for local demand”.

Another example is not to have any R&D expenditure on-site. Company 5 prefers importing all products from home country, instead of encouraging R&D activities in host country (exceptionally, they sometimes have to realize research for adaptation of new products). This company has no effect on the development of R&D activities in Turkey, which can be indicative of a tendency for disembeddedness.

Table IV.XIX. Categories and sources of R&D activities

Location of R&D	On-site	Parent comp.	Bought from home country	Bought locally	Bought nationally	Bought internationally	Total
<i>Research, new products</i>	**	**	***	*		*	9
<i>Research, new processes</i>	****	*	**				7
<i>Design and redesign of products</i>	***	**	*			*	7
<i>Adaptation of products</i>	***	**			*	*	7
<i>Adaptation of processes</i>	**** *	**	**		*	*	11
<i>Product testing</i>	***	**	*				6
<i>Process testing</i>	**	*					3
<i>Total</i>	22	12	9	1	2	4	50

The data on the Table IV.XIX refers to different categories and sources of R&D activities of companies in the sample in İstanbul. The survey drew an important distinction between internal and external sources, allowing us to comment on the extent of collaboration between TNC affiliates and the private and public sector research institutions – something which has been strongly emphasized in the recent literature on knowledge and learning (Lundvall and Johnson, 1994; Cooke and Morgan, 1998). As can be seen from Table IV.XIX, internal sourcing (on-site and parent company sourcing) is more important than external sourcing in R&D activities in general. But there is an interesting point which should be mentioned here. Although one of the most important higher order R&D activities, namely research for new products, are mostly provided by the home country of the TNC, and than on-site and parent company respectively, the other one, research for new process, is mostly provided by on-site and than home country and parent company in that order. This indicates that there is no strong distinction among internal and external sourcing in the advanced form of R&D activities that means local capacity is as much quality as home country. Beyond this, two observations regarding to the sourcing of R&D activities can be made. First, Table IV.XIX shows that on-site provision is more significant in almost all forms of R&D activities and especially in one of the higher order activities, as mentioned above. By contrast, levels of parent company provision tend to be in second order in these activities. Second, Table IV.XIX demonstrates that external sources of R&D activities are insignificant compared to intra-corporate and on-site sources (except research on new products). This applies to almost all types of R&D activity, and to among the “Bought from home country”, “Bought locally”, “Bought nationally” and “Bought internationally” categories, though the last two categories are slightly more important across most types of R&D activity. The fact that local sourcing of R&D from organizations such as universities, research institutes, innovative SMEs and consultancies appears negligible even for routine forms of R&D puts the recent emphasis on links between investors

and the higher education sector into perspective (Phelps, 2003). While the interview method employed here may not capture the effects of recent initiatives, our data do suggest that recent claims of increased learning and collaboration (Cooke et al., 1995; Morgan, 1997a) have been overstated. The pattern for the majority of affiliates, is more consistent with the enclave idea since the degree of local linkage is very low, though some extension of these linkages may be apparent at a small number of “flagship” investors upon which recent policy initiatives have focused.

IV.III. EVALUATION OF THE CASE STUDIES: RETHINKING THE THEORY WITH REFERENCE TO PRACTICE

Three different level analyses were conducted in the case study. The findings and a critical evaluation of these cases within the context of grounded theory building techniques are realized in this section. As mentioned above, final phase of grounded theory incorporates the literature comparison phase. Table IV.XXI illustrates the comparisons between propositions generated by exhausting the literature and by conducting a case study in İstanbul. Before evaluation firm level analysis, national and city level analyses are concluded briefly.

Turkey has always been selected for investments by foreign companies. The first foreign investments to Turkey have been realized in the Ottoman period. Railways have been constructed in almost all of the country by them to reach the raw materials and finished goods markets in these years. The attractiveness of Turkey for TNCs have been changed parallel to the political, social and economical environment in the country. But there is no doubt that, the most preferred city for FDI has been İstanbul in every period of time.

Firm level analysis is presented in Table IV.XX which shows propositions generated by the literature and supported by the cases examined. Comparisons between them are realized by criteria, which are “explicitly supported”, “implicitly supported” and “not referred to” can be matched with “locally embedded”, “extended enclave” and “enclave” concepts respectively. Clearly, propositions that are not referred to imply that there is no possibility to become embedded for this particular subject, whereas, propositions that are explicitly supported imply the existence of local embeddedness with reference to this particular subject in the Turkish case.

An interesting situation arises in the supported and not supported propositions generated by literature (Table IV.XX). Most of supported propositions that generated by the literature are about general characteristics of TNCs. On the contrary, not referred to propositions are related with production and/or managerial organizations of TNCs. More detailed information about these comparisons and their results are given below.

Table IV.XX. Propositions Generated by the Literature Case and Supported by the Cases

Propositions Generated by the Literature	Explicitly Supported	Implicitly Supported	Not Referred To
General characteristics of TNCs			
The greater the age of the TNC in a location, the more TNC will form embedded rather than arm's length ties.			
TNCs in service sector have more possibility to embed a location than others			
Whatever the developments in communication and transportation technologies, physical distance is still important in the local embeddedness process. The closer the home country to host country, the more TNC will become embedded.			
The stronger the historical, cultural and political ties between home and the host, the greater the level of embeddedness of TNC.			
The greater the sunk cost incurred by TNC, the weaker the possibility of leaving host country			
Managerial/organizational structures of TNCs			
The more the ratio of ownership of the headquarters, the more control and strict coordination the headquarter has.			
The greater the level of control and coordination of the headquarters, the less TNC will become embedded			
The more responsibilities and roles of local subsidiary, the more locally embedded the TNCs			
TNCs with higher ownership ratio have also extra expenditures for technology development/R&D, that is key determinant for local embeddedness			
The processes of learning and collaboration between firms and local institutions are important in fostering greater TNC embeddedness			
The greater the level of embeddedness, the more re-investment will be realized by the headquarters.			

Table IV.XX (Continued)

Propositions Generated by the Literature	Explicitly Supported	Implicitly Supported	Not Referred To
Institutional arrangements between home and host countries are important indicators for embeddedness. The greater the number of arrangements, the greater the level of embeddedness			
The greater the number of RDAs in host country, the more TNCs will become embedded			
Production structures of TNCs			
The effects of local backward linkages on local embeddedness of TNCs are strongly related with using and development potentials of these sources and networking structure among actors.			
The higher the level of local supplies of production materials and labour, the higher the degree of embeddedness of TNC			
The relationship between local universities and research institutes of local partners are increased the possibility of embeddedness.			
The more locally embedded the technological relations, the more innovative the firm			
TNCs which invested to technology have a possibility to be embedded that location			

Propositions that were supported by the cases and indicators to local embeddedness are:

“Whatever the developments in communication and transportation technologies, physical distance is still important in the local embeddedness process. The closer the home country to host country, the more TNC will become embedded” and

“The stronger the historical, cultural and political ties between home and the host, the greater the level of embeddedness of TNC”

these two propositions are explicitly supported by the cases, since almost all of the investments have been realized according to the level of these physical and familiarity distance.

“TNCs in service sector have more possibility to embed a location than others”
parallel to the general trend in the world most of the investments are being realized to the service sector, especially after 1980s. For this reason, there is a potential for local embeddedness.

Propositions that were supported by the cases but indicators to enclave economy are;

“TNCs with higher ownership ratio have also extra expenditures for technology development/R&D, that is key determinant for local embeddedness” and

“The more locally embedded the technological relations, the more innovative the firm”

These two propositions can not be supported by the cases, since TNCs are generally import current technology from their home country, there is a limited technology development in-site among TNCs.

“The processes of learning and collaboration between firms and local institutions are important in fostering greater TNC embeddedness”,

“Institutional arrangements between home and host countries are important indicators for embeddedness. The greater the number of arrangements, the greater the level of embeddedness”,

“The greater the number of RDAs in host country, the more TNCs will become embedded”,

“The relationship between local universities and research institutes of local partners increase the possibility of embeddedness” and

“TNCs which invested to technology have a possibility to be embedded that location”

These propositions related to the local institutional structure and relationship between TNCs and them are not supported by the cases. The lack of strong institutional structure is one of the most important deficiencies for Turkey.

Propositions that were supported by the cases but indicators of extended enclave economy are;

“The greater the age of the TNC in a location, the more TNC will form embedded rather than arm’s length ties”

“TNCs in service sector have more possibility to embed a location than others”

“The more responsibilities and roles of local subsidiary, the more locally embedded TNCs”

“The effects of local backward linkages on local embeddedness of TNCs are strongly related with using and development potentials of these sources and networking structure among actors”

“The higher the level of local supplies of production materials and labour, the higher the degree of embeddedness of TNC”

These propositions above are generally related with the local backward linkages, and this is one of the most important reasons for the locational preferences of TNCs. It is not wrong to say that, TNCs select this locations because these are suitable for investment but this is not an adequate reason to become locally embedded there.

All in all one of the most significant findings of this study is the fact that, general characteristics of TNCs in Turkey have possibility to become embedded locally when their production and/or managerial organizations are taken into account, they are still strongly connected their home country, in other words the enclave economy exists in these contexts.

CHAPTER V

CONCLUSIONS

The nature of globalization shows that globalization process is essentially uneven-heterogeneous in its form and effects, generating a dualistic opposition between global flows and local fixities (Amin and Thrift, 1997; Dicken et al., 1997; Storper, 1997; Lee, 1999). Recent studies argued that there is no single globalization strategy, emphasizing various globalization strategies pursued by Transnational Corporations (TNCs). Local embeddedness of TNCs which give reference to the spatial fixity is one of these strategies.

As the international production by TNCs has grown and taken on new patterns, as the world economic scenario has changed, as scholars have better understood the reason for FDI, new explanations of the phenomena have been put forward, and existing explanations have been modified and, occasionally, replaced.

This study attempted to clarify the issue of local embeddedness with regard to TNCs and to understand the dynamics of local embeddedness in the case of TNCs in Turkey. In order to reach this aim triangulation data and triangulation methodology is utilized in this thesis. As mentioned previously, grounded theory building techniques are utilized by combination of qualitative and quantitative data analyses at different levels. Since, embeddedness is a process that begins with locational preferences of TNCs, the first level analyses are concentrated on national and city level analyses.

The national and city level analyses which were carried out in order to identify the general characteristics of TNCs in Turkey, involved the identification of “quantifiable” variables and the selection of most attractive cities for detailed case studies along with the clarification of different determining factors that affect the locational decision of TNCs in Turkey. At this point the determining factors should be elaborated. First of all, *home country/host country distance* (both geographical distance and familiarity distance) is a crucial factor in the explanation of local embeddedness of TNCs. This factor is quite important for the locational preferences of TNCs in the Turkish case. Despite the increasing studies on the depreciation of space by time, spatial proximity is still important in the locational preferences of TNCs. According to the Yeung et al. (2001) geographical distance from host country is a key factor in transaction costs and in establishing control mechanisms. Proponents of the local embeddedness literature have concluded that spatial proximity facilitates relationships based on trust, since “trust-building is usually difficult to achieve over long distances because of the need for face-to-face interaction” (Staber, 1996: 156). On the other hand, familiarity distance between home and host countries is effective in embeddedness process. Specifically, at the nation-state level, economic exchange between countries is rooted in state relations, international exchanges, and national identities. First, nation-states as political actors forge formal institutional and political alliances with other states. Second, countries build contacts with each other through exchanges of people and goods. Third, nationality as a form of identity has particular cultural understandings and meanings associated with it; those meanings shape contacts between actors from different nations. These supra-organizational phenomena suggest that formal institutional arrangements, political alliances, business and personal networks, and cultural ties between investor and host countries will influence FDI flows between them and thus embeddedness of TNCs (Bandelj, 2002:418). Similarly, it

has been clarified that TNCs located in Turkey prefer locations in accordance with their distance (familiarity and physical) to home country. To give an example, FDIs from European countries generally appear to prefer west Anatolian cities whereas Islamic countries mostly favour eastern Anatolian cities. Additionally, countries such as Georgia, incline to invest in Black Sea Regions particularly in the cities of Artvin and Rize.

The second crucial point in regard to locational preferences of TNCs in Turkey is the fact that TNCs tend to concentrate in three different areas; first "*metropolitan areas*" with high-unsupplied market and adequate infrastructure for their products; second "*coastal areas*" with high tourism potentials and finally, "*agricultural or industrial areas*" with excess raw material and cheap labour. Metropolitan areas, namely, İstanbul, İzmir and Ankara, are the most attractive locations for foreign investors. These are the most developed cities in the country and they have great potential of economic and cultural resources. These cities attract foreign investors, since they give immediate access to domestic markets; due to the availability of efficient "their transportation systems" (i.e. different transportation modes, like seaway, railway and so on), and that of effective communication systems and by "their geographical proximity to home countries". Moreover, the existence of a large potential market, "financial activities (e.g. the existence of foreign banks and so on)", "manufacturing capabilities (i.e. cheap and qualified labour force)" and "cultural activities", are some of the other significant factors for attracting FDI. As it has been mentioned previously, İstanbul is the most favoured city by foreign investors in Turkey. In fact, she provides easy access to Europe, and historically, it has a traditional link with the pepper route to eastern world. In addition, İstanbul has been a commercial and cultural centre since the Byzantine period. The significant historical role of İstanbul has also been affecting the FDI, since the headquarters of big TNCs prefer to select location in the cities that have a

cultural and historical prestige in the world. Other metropolitan areas such as Ankara and İzmir have also concentrated on trade activities and public services similar to İstanbul. A common point for them here is that in addition to trade and service investments these metropolitan areas get a crucial share from tourism investments. Since all these cities, especially İstanbul, are world heritage cities because of their archaeological, natural and urban beauties. Another preferred location from foreign investors' point of view is the coastal areas with high tourism potentials. Antalya, Muğla, Aydın along with İstanbul are the cities with highest percentage of foreign investments. Their natural beauties, cultural and historical heritages and adequate infrastructures required for tourism activities are some of the attracting characteristics of FDI.

All in all, it can be emphasized that the TNCs mostly prefer to select location in areas that are close to market, infrastructure, labour and raw material resources. In this sense, they tend to favour metropolitan areas, coastal cities and industrial or agricultural areas, in that order. Following the periods of foreign trade liberalization during the 1980s, foreign investments generally have chosen to invest industrial activities in order to benefit from the market conditions in the country, and, in time, the prior investors have started to develop subsidiaries and operate especially in the service sector. The shift from manufacturing to service sector and the accompanying increase in the number of subsidiaries can be evaluated as the existence of growing trust to the economic and political stability of Turkey.

Firm level analyses have been conducted in order to understand the ways in which the factors identified at previous levels influence TNCs' decisions and to identify other qualitative variables affecting local embeddedness of TNCs in the Turkish case. An interesting situation arises in the supported and not supported propositions generated by literature (Table IV.XX). Most of supported propositions that generated by the literature are about general characteristics of TNCs. In contrast,

propositions not referred are related with production and/or managerial organizations of TNCs.

General characteristics of TNCs in Turkey are similar when TNCs in European countries are taken into account. There is no radical differences between them in terms of duration in host country, home-host country distance, establishment sunk costs and sectoral characteristics. For this reason, it is not wrong to say that, there is a possibility to become embedded of these TNCs located in Turkey.

Within the context of managerial/organizational structure, the effects of the higher ownership ratio of foreign partner on the coordination and control of local partner are seen in Turkish case. This is very critical characteristic of enclave economies. On the other hand, increased roles and responsibilities of local labour, re-investments realized by TNCs in İstanbul are important indicators of the local embeddedness. But the lack of relationships between TNCs and local institutions is an evidence of enclave economy (disembeddedness again).

Production structures of TNCs in Turkey are not supporting the embeddedness, either. Although TNCs use local resources for their production, limited technology transfer and limited relations with local universities and research institutes point out the enclave economy. These corporations utilize cheap raw materials and local labour but not transfer high technology or not produce here that technologies, which have high spillover effects.

All in all, one of the most significant findings of this study is the fact that, general characteristics of TNCs in Turkey indicate possibilities to make them embedded locally, when their production and/or managerial organizations are

taken into account, they are still strongly connected their home country, in other words the enclave economy exists in these issues.

In fact, almost all of the propositions evaluated here are derived from those countries' literatures and cases that have different social, economic and political conditions compared to Turkey. For this reason, the requirements for embeddedness in terms of managerial and organizational characteristics can not be satisfied by the country. Clarifying these requirements could open a different perspective, so, two main differences between literature cases and Turkish case are evaluated briefly. The first important difference concerns local backward linkages especially using local labour. The number and the roles and responsibilities of local labour is very high. Actually, when these numbers are compared to the TNCs located in European countries, the ratio of local labour use is not higher than in Turkey's. This situation can not be interpreted as a strong possibility of local embeddedness in this context. Undoubtedly, "qualified, cheap labour" is the most crucial reason of these large numbers in Turkey. TNCs located in Turkey, can reach qualified labour more cheaper than their home countries. For this reason relatively large proportion of local labour use can not be an indicator of local embeddedness in Turkish case and similarly in other developing countries.

The second difference is the host countries' institutional structure affecting local embeddedness of TNCs. Turkey as a developing country, have not sufficient institutional infrastructure for providing many requirements of TNCs or making investment process easy. RDAs which are very critical institutions for local embeddedness of TNCs are newly started to be developed by SPO in these days. Examples from developed countries, especially from European countries, proved their efficiency. Additionally, networking among TNCs and local institutions are among the determinants of local embeddedness. The stronger the

networking among local actors and TNCs, the stronger the interaction among them and thus the greater the level of embeddedness of TNCs to these localities. From this perspective, lack of strong local institutional structure has the negative impact for embeddedness of TNCs in general and into our country in particular.

In summary, local embeddedness process of TNCs is realized in Turkey in a slightly different path from developed countries. Some of the deficiencies in Turkey, like strong institutional structure, are the main reasons for these differences. To turn the situation to Turkey's advantage, it is essential that required conditions for local embeddedness and thus for regional economic development are provided.

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APPENDICES

A. Türkiye'deki Çokuluslu Firmalar için Anket çalışması

(KİMLİK BİLGİLERİ SAKLI KALACAKTIR)

- 1) Firmanızın adı:
- 2) Kuruluş yılı:
- 3) Adresi:
- 4) Yabancı ortağının ülkesi:
- 5) Yabancı ortağın ortaklık payı nedir?
- 6) Ülkede başka kentte şubeler var mı? Nerelerde?
- 7) Yılık cironuz yaklaşık olarak nedir?
- 8) Üretim yaptığınız sektör dalı nedir?
- 9) Firma içi birimler nelerdir? Ve bu birimlerde çalışan eleman sayıları nelerdir?

Birimler	İşçi Sayıları					
	T.C. Uyraklu			Toplam		
	A	B	C	A	B	C

A: Yönetici (*Chairman and Vice-General Manager*):

B: Teknik personel

C: Diğer

- 10) Firmanızın ülkeye girişi nasıl gerçekleşti?
- 11) Yatırım yaparken herhangi bir teşvikten yararlandınız mı? Evet ise kimden;

Araştırma ve Geliştirme

- 12) Ar-Ge biriminizde Türk işgücünden faydalaniyor musunuz? Neden?
- 13) Yerel talebe yönelik ürün adaptasyonu var mı?
- 14) Bu sitede, üretimde kullanılan araştırma ve geliştirme aktivitelerinden hangilerini nereden temin ediyorsunuz? (Yeni ürün araştırmaları, Yeni süreç araştırmaları, Ürün tasarımı, Ürün adaptasyonu, Süreç adaptasyonu, Ürün testi, Süreç testi) Eğer yerel kaynaklardan temin ediyorsanız, lütfen kaynağı belirtir misiniz? (üniversiteler, danışmanlık firmaları, vb.)

Yerel Kaynaklardan Faydalanma ve Yerel aktörlerle ilişkiler

- 15) Firmanızın işgücü ihtiyacının ne kadarı nereden karşılanıyor?
- 16) Hammade ve/veya ara madde ihtiyacınız nereden karşılanıyor?
- 17) Ürün satışlarınız yaklaşık olarak hangi bölgelere ve ne oranda gerçekleşiyor?
- 18) Rakipleriniz genelde hangi firmalar?
- 19) Rakipleriniz daha çok yerel firmalar ise rekabet nasıl?
- 20) Yerel firmalarla birbirinizi tamamlayıcı ilişki içerisindeyseniz tamamlayıcılık nasıl?
- 21) Yerel firmalarla ortak projeleriniz var mı?
- 22) Yerel ağda bilgi aktif bir şekilde paylaşıyor mu?
- 23) Üretimizi burada mı gerçekleştiriyorsunuz? (Hayır ise soru 24'e gidiniz)
Evet ise, yabancı ortağın ülkesinde üretmek yerine üretimi burada yapmanızın sebepleri nelerdir?
- 24) Yerel kaynak kullanımında ve yerel firmalarla fason ilişkilerde son beş yılda nasıl bir değişim oldu?
- 25) Firmanızın ürün pazarında son yıllarda değişim oldu mu? Evet ise neden?
- 26) Firmanızın üretim yer seçinde son yıllarda değişim oldu mu? Evet ise neden?
- 27) Ortak çalıştığınız yerel firmanızla ilişkilerinizde son yıllarda değişim oldu mu? Evet ise nasıl bir değişiklik oldu (ortaklık oranı, görev paylaşımı, vb.)
- 28) Yeni bağlantı kurduğunuz firmalarla genelde yazılı kontrat mı yoksa sözlü anlaşma mı yapıyorsunuz?
- 29) Üretim zincirindeki payınızın artırılmasında hangi bağlantılarınızın nasıl faydası oluyor?
- 30) Kurumsal bağların firmanıza katkısı/katkıları ne oldu?

Beceri ve Eğitim

- 31) Firmanızın yıllık gelirinin yaklaşık % kaçını yerel işgücünün eğitimi için ayırıyorsunuz?
- 32) Bu oran son yıllarda herhangi bir değişim gösterdi mi?
- 33) Yerel eğitim ve öğretim birimleriyle (üniversiteler, meslek okulları, yüksek okullar, vb.) ilişkilerinizi nasıl tanımlarsınız?
- 34) Yerel firmalara eğitim seminerleri veriliyor mu?

Yeniden Yatırım Programı

"Yeniden yatırım" firmanın kuruluşundan itibaren programlanmış herhangi bir yeni yatırım anlamında kullanılmaktadır.

35) Son beş yılda (ya da firmanızın kuruluşundan bu yana) yeniden yatırım yaptıysanız bu yatırımın faydasını gördünüz mü? Eğer cevabınız evet ise, karar alma sürecini anlatınız.

36) Yaptığınız bu yatırımın firmanıza faydaları nelerdir?

37) Firmanızda program dahilinde herhangi bir yeni yatırım söz konusu mu? Hangi sektöre ve hangi kente? Neden?

38) Sizce yeniden yatırım yapmayı etkileyen en önemli faktörler hangileridir

Kurumsal Destek

39) Firmanızın kuruluş, üretim ya da satış aşamalarının herhangi birinde kurumsal bir destek aldınız mı Evet ise, kimden/kimlerden?

40) Herhangi bir kurumun oluşturulmasında katkınız oldu mu? Evet ise, hangi kurum:

41) Hangi kurumlarla ilişki içindesiniz? Hangi sıklıkla biraraya geliyorsunuz?

42) Bu kurumlarla ne amaçla biraraya geliyorsunuz?

43) Üretim ya da pazarlama aşamalarının herhangi birinde aracı kullanıyor mu? Kullanılıyor ise kimler?

CURRICULUM VITAE

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EDUCATION

Degree	Institution	Year of Graduation
MS	METU Regional Planning	1997
BS	GAZİ UNIVERSITY City and Regional Planning	1993
High School	Ankara Bahçelievler Deneme Lisesi, Ankara	1989

WORK EXPERIENCE

Year	Place	Enrollment
1995-	GAZİ UNIVERSITY City and Regional Planning	Research Assistant

FOREIGN LANGUAGES

English (ÜDS – March 2004): 73.750

SELECTED PUBLICATIONS

1. **Sat (Büyükgöçmen), N. A. ve Varol, Ç.**, 2005, Üretim Ağlarının Firmalar Üzerine Etkileri: Ankara Tekstil Sanayi Örneği, Der. Şehir ve Bölge Planlama Bölümü, **Planlama Çalışmaları**, sayfa no: 4-21, Ankara.

2. Gültekin, N., Özcan, Z., Dünder, Ö., Sat, A., 2005, **Geleneksel Konut Dokusunda Kullanabilirlik Ölçütlerinin Belirlenmesi; Talas ve İncesu Örnekleri**, (ISBN: 975-98322-0-8), Minpa Matb., Ankara.

3. Varol, Ç., Sat (Büyüköçmen) N. A., Üçer, A., Yılmaz, G., 2004, "Küresel Sisteme Entegrasyonda Teknoloji ve Bilgi Üretiminin Mekansal Yığılma Noktaları: Teknoparklar", **8 Kasım Dünya Şehircilik Günü 28. Kolokyumu, Değişen-Dönüşen Kent ve Bölge**, 8-10 Kasım 2004, Bildiri Özetleri kitabı, sayfa no: 140-141, ODTÜ.

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