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WILL ENERGY SAVE FDI INFLOWS TO TURKEY FROM THE COOL DOWN OF EU ACCESSION PROSPECTS?
A CASE STUDY OF HOW GEO-POLITICAL ALLIANCES AND REGIONAL NETWORKS MATTER

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ABSTRACT *Turkey has historically struggled to attract foreign investors. This paper discusses how the start of the European Union's accession negotiations in 2005 encompassed a wide set of reforms in several chapters of the acquis communautaire that resulted in higher foreign direct investment attraction. However, it seems that the global economic slowdown of 2009 coupled with increasing Euro-scepticism have already started to erode this effect. Only large a volume of foreign investment in the energy sector observed in 2009–13, explained by the energy security strategy of the European Union and the internal liberalization agenda, has prevented the collapse of foreign direct investment inflows to Turkey.*

Motivation

Turkey constitutes a very interesting case to study capital flows and, more concretely, foreign direct investment (FDI). The country counts with an enviable geo-strategic location both for business and from the point of view of international relations;[1] in fact, location has been instrumental in shaping Turkish relations with the European Union (EU).[2] Turkey has traditionally enjoyed privileged relations with the United States and the EU, to the point that is seen as a Western-embedded emerging country.[3] Turkey embraced structural adjustment programs in the 1980s, and capital account opening in the 1990s. However, in spite of these developments, Turkey has been traditionally characterized by low levels of FDI (just around 0.5 per cent of the Gross Domestic Product (GDP) for most of the 1980s and 1990s), if compared to other emerging markets with similar levels of per capita Gross National Income (GNI) such as Mexico or Brazil. In fact, during the 1990s and early 2000s, the country suffered several sudden stops associated to short-term capital outflows. One may ask what the causes behind Turkey´s underperformance capital flow attraction are.

Most of the authors consider that macroeconomic instability has been the main deterrent of FDI in Turkey.[4] Faulty institutions and the slow pace of privatization have also been often blamed.[5] The question now is whether this explanation, which seems to fit well with the developments throughout the 1990s, is also sufficient to account for the surge in FDI inflows in the country during the second half of the 2000s.

In principle, one may think that the increasing FDI inflows observed since 2005 is just the product of the enhanced economic and political stability brought by the successive governments of Erdogan´s Justice and Development Party (*Adalet ve Kalkınma Partisi*, AKP). Yet, this paper argues that the EU accession negotiations (launched in 2005) have also played an important role in helping Turkey boost FDI inflows.[6] The aim of this paper is to understand how evolving relationships with the EU have enhanced FDI attraction in Turkey, and may cease to do so. This paper tries to contribute to existing research in the following ways: (i) by complementing existing cross-country analysis of FDI determinants with a country-specific case study; (ii) by bringing regional integration considerations into debate; and (iii) by presenting a geo-strategic perspective on energy corridors that will help explain the relevance foreign investment in energy has acquired since 2009. Concretely, this paper examines to which extent the relevance of Turkey in the energy corridor strategy of the EU and the Nabucco project have caused the relatively recent boost in investment into this sector. .

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Drawing from a qualitative framework,[7] the analysis undertaken suggests that the EU-Turkey Customs Union Agreement of 1996 served the purpose of enhancing bilateral trade flows well. However, FDI did not significantly expand in the aftermath of the agreement because the union did not entail free capital mobility (as that enjoyed by the members of the Common Market). Moreover, the Customs Union did not imply enhancements in the business climate, and its implementation considered a five-year grace period for the alignment of certain trade policy aspects. Conversely, the official start of the EU accession negotiations in 2005 involved a wide set of accompanying reforms in 35 chapters of the *acquis communautaire*, including free movement of goods, right of establishment to provide services, competition policy, financial services, energy, regional policy or the customs union. The signalling of expected progress in the business environment associated to the accession process has made Turkey more attractive in the eyes of foreign investors. Another finding is that FDI inflows to GDP have somewhat contracted again since 2009 in the context of the global financial crisis, resulting in a change in EU priorities and weaker accession prospects for Turkey. Only in the energy and electricity sectors have FDI inflows significantly expanded, in part due to European interests in creating transnational energy corridors passing through the country's borders.

In sum, this research aims at gaining a better understanding about how regional integration processes have influenced FDI attraction in Turkey. The rest of the paper is divided as follows. Section 2 presents a brief look at economic and political developments occurred over the last three decades in Turkey. Section 3 summarizes the main research findings contained in existing literature discussing FDI in Turkey. Section 4 presents the qualitative discussion on the effects of different EU integration stages on foreign investment. Section 5 looks at the concrete case of booming FDI in the energy sector, which needs to be explained by looking at trans-regional logistics and geo-political factors. Finally, section 6 concludes with the implications derived from the discussion.

Three Decades of Liberalization in Turkey

In the aftermath of the 1979 foreign exchange crisis, Turkey signed a "Structural Adjustment Loan" with the World Bank in March and a three-year deal with the IMF in June. The recovery plan brought a transformation of an exhausted import-substituting model into an export-oriented open economy.[8] During the 1980s, Turkey experienced a relatively successful growth and export performance, but at the expense of real wages and increasing income inequality.[9]

Economic liberalization and the previously mentioned market-orientated measures, promoted by the government of Turgut Özal, did not attract significant foreign investment. It has been argued that the orthodox approach of shifting incentives to foster FDI is insufficient if investors do not rely on the sustainability of the new regime.[10] A large foreign debt stock, lack of confidence between foreign companies and the government, and the persistence of subsidies and protectionist measures in certain sectors were probably some of the reasons why inward FDI continued to be low during the 1980s.

[Figure 1 comes about here]

In 1989 Turkey took a step ahead in its liberalization process by fully opening its capital account to foreign flows. This measure has been a subject of controversy, given that macroeconomic instability increased and the country was exposed to several sudden stops in the following decade (1994, 1998 and 2000-2001). Moreover, the country was not able to significantly increase FDI attraction, as most of the inward capital flows were driven by short-term speculative purposes.[11]

There are three alternative explanations given to the unsatisfactory performance of Turkey during the 1990s.[12] On the one hand, existing bureaucracy and domestic institutional inefficiencies could have had a negative impact on the outcome of the reforms.[13] On the other hand, while recognizing disturbances introduced by the government, most of the Turkish economists attribute the problems to deficiencies in the adopted liberalization approach, such as insufficient consideration of the distinguishing features of the Turkish economy. A third view is that of a timing-failure in the execution of the different reforms.

The mentioned decade of political and economic instability ended up with Turkey suffering from twin crises in November 2000 (mainly of financial nature) and February 2001 (currency and balance of payment crisis). Interestingly, the economic slump was the turning point leading into a new era. Some factors, such as the extent of the economic collapse, the figure of Kemal Derviş as a coordinator of the government's dialogue with the IMF and the World Bank (WB), as well as EU membership prospects, have been identified as helpful in overcoming the pressures of interest groups and launching the implementation of an ambitious set of reforms in

the aftermath of the crisis.[14] In fact, AKP, the winner in the general elections of 2002, committed to continuing the implementation of the ambitious economic reform agenda set up by the previous coalition.[15] In this setting, a new FDI regulation was introduced in 2003, removing the requirement for a permission to create new companies with foreign capital and easing the investment process. In addition to that, reforms included a new capital markets law, enhanced corporate governance measures and accelerated privatization.[16]

In October 2005 negotiations with the EU regarding Turkey's accession officially started. This process helped accelerate economic and institutional reforms, which reinforced stability and business expectations until the outbreak of the world financial crisis in 2008. Net FDI remained at around 0.5 per cent of GDP in 2002-2004, only expanding to 1.9 and 3.6 per cent in 2005 and 2006, respectively. This upsurge seems to be initially explained by real exchange rate depreciation following the introduction of the New Turkish Lira in January 2005, and reinforced by positive European Union accession prospects. The expansion of foreign direct investment also helped partly financing a rapidly expanding balance of payments gap: current account deficit expanded from an average of 7.4 billion USD in 2002-2004, to 32.8 billion USD in 2005-2008.

In 2008, as the economy headed into recession, the country suffered a net portfolio outflow. However, unlike the crises of 1998-99 and 2001, portfolio flight was moderate (0.7 per cent of GDP, compared to more than two per cent of GDP in the previous crises), and this time it was compensated by large FDI inflows. Economic growth bounced back well in 2010 and 2011, and large portfolio inflows have returned to Turkey. However, vanishing EU accession prospects combined with more shaky growth prospects and exchange rate instability seem to have undermined FDI attraction potential; yearly inflows were in 2009-2013 less than half of those observed prior to the global economic slowdown. In addition, developments affecting rule of law and protests by part of the citizenry may hamper FDI inflows to Turkey in the future.

A Literature Review on the Determinants of FDI in Turkey

Existing literature on foreign direct investment in Turkey is heterogeneous, presenting different focuses and drawing from dissimilar theoretical approaches and methodological tools. In order to synthesize existing empirical evidence, previous studies are listed according to the determinants of FDI they discuss and the methodology applied.

A first set of articles departs from the so-called OLI eclectic paradigm, which theoretically establishes that there are a series of location, ownership and internalization factors that influence the settlement of subsidiaries by multinational enterprises.[17] This framework has been empirically tested in the case of Turkey through a series of firm-level studies. There is evidence that among the most relevant factors influencing investment in Turkey are its market size (and the related growth rate) and certain government policies such as that on profit repatriation.[18] Once a multinational has opted for investing in Turkey, the mode of entry (joint venture versus full ownership) is going to depend on cultural distance (origin of the international investor), as well as on industry (level of competition) and corporate factors (capital of the affiliate, level of diversification…).[19] The choice of a concrete location within the Turkish territory is influenced by the characteristics of the industry (productivity, agglomeration of similar firms) and on local conditions (coastal access, infrastructures, etc.); public investment's share on regional GDP does not seem to be an influencing factor.[20] Another group of scholars has looked at the geographical distribution of FDI within Turkey, highlighting increasing regional divergences.[21] Ultimately, this firm-level approach has been criticized for being ¨*narrowly focused*¨ and providing ¨*no in-depth analysis of the economic, political and social factors that determine Turkey's attractiveness as a host country to foreign investors*¨.[22] Nonetheless, this strand of the literature provides useful information to managers and investors, and constitutes a good complement of macro-level studies. Firm level data can also help assess whether foreign subsidiaries already established in Turkey contribute to productivity increases in the rest of the economy through spill over effects; evidence on the existence of backward and forward linkages between foreign subsidiaries and local companies seems to be weak.[23]

A second strand of the literature assesses macroeconomic and institutional determinants of foreign direct investment. These studies have in common the use of a quantitative analytical approach, often in the form of cross-country regression. Most of them argue that high inflation coupled with macroeconomic instability explain low levels of inward and outward FDI in Turkey.[24]

Capital account liberalization is expected in increased foreign investment attraction.[25] However, capital account opening seems to be a necessary but not sufficient condition to enhance FDI inflows, as observed in Turkey during the 1990s. According to this strand of the literature, apart from counting with reliable macroeconomic management, a stable investment framework and

efficient institutions are necessary to appeal the foreign investor. There is cross-country evidence for Eastern Europe and Turkey that lack of corruption, transparency, rule of law or security of property rights contribute positively to FDI attraction. Also, when applying a questionnaire to managers of firms in Turkey, they perceive macroeconomic instability, inflation and deficient institutions as the main barriers to FDI attraction.[26]

An assessment of how the different crises have affected Foreign Portfolio Inflows (FPI) and Foreign Direct Investment flows in Turkey has been also undertaken. Results show that FPI is susceptible to regional contagion and responds negatively to financial risk, while FDI is sensitive to economic risk but is not affected by contagion.[27] This finding suggests that FDI inflows were deterred during the 1990s due to economic risk, whereas during 2002-2008 foreign investors were attracted by the more stable economic situation.

A more recent study employs Markov Regime-Switching Models to study the determinants of FDI in Turkey from a non-linear approach.[28] It concludes that FDI inflows are positively correlated with economic growth in Turkey, decreasing country risk and expansion in exports, whereas labour costs, imports and currency depreciation expectations have a negative impact on FDI in Turkey. Results point to non-linearity and significant structural breaks in 1988, 1996, 2001, and 2005-2006. While 1988 and 2001 are clearly identified as years in which there was a mayor crisis in Turkey, this is not the case in 1996, and 2005-2006. The authors attribute these breaks to temporary increases in the risk perception indicator for Turkey due to political developments such as uncertainty under elections and the announcement of the opening of a nuclear reactor. While it is agreed that temporal sudden stops in FDI inflows observed in certain quarters in those years may be attributed to the perception of political risk, the next section of this paper argues that the change in trends observed after 2005 has more to do with regional integration.

A third group of studies considers that, in addition to macroeconomic and institutional factors, regional integration and, more concretely, accession prospects to the European Union, have significantly helped Turkey attracting FDI. This approach is intimately related to the institutional views, as it can be understood that regional integration agreements usually incorporate intellectual and investment protection clauses, and often encompass an improvement in the ease of doing business.

The low impact of 1996 Customs Union Treaty with the EU on FDI has been explained in terms of government failure: authorities did not sufficiently improve the business environment and, for that reason, effective capital flows remained modest, in spite of the fact that international investors announced large operations in the aftermath of the agreement.[29] Turkey was supposed to improve competition law and to introduce industrial and technical standards, but the necessary reforms were not always efficiently implemented.[30]

Another important milestone from the regional integration perspective is the start of accession negotiations with the EU in 2005. Most authors predicted that the opening of the EU accession negotiations would be beneficial for inward FDI, given that Turkey had committed to progress in the adoption of the common *acquis*.[31] This, combined with improvements in the domestic investment framework (FDI law, capital market reforms, banking sector, reforms, etc.) and the availability of global financial funds during 2003-2008, would explain the unprecedented increase in FDI inflows.[32]

The impact of the beginning of EU accession negotiations in 2005 has been quantitatively tested in several studies. The most usual approach is the use of a dummy variable to try to capture the effects of this event on FDI. In most cases, EU accession, together with a series of institutional variables, are found to contribute positively to inward FDI flows.[33] Gravity model analyses based on the capital-knowledge theory confirm most of the results obtained by previous authors on macroeconomic and institutional determinants of FDI. In addition, they find that foreign investors in Turkey are mainly motivated by market access purposes (horizontal FDI), as the costs of exporting to Turkey are relatively high (compared to other OECD countries). FDI flows to Turkey respond positively to the EU accession process, as well as to bilateral trade treaties with third countries.[34] There is also some evidence suggesting that Turkey still presents an unexploited potential in terms of additional FDI stock, ranging 200 per cent to 1000 per cent; further progress in EU accession could help to take advantage of this potential.[35]

To sum up, the literature discussing foreign direct investment in Turkey points to economic and political unsteadiness during the 1990s as the main deterrent for the arrival of long-term capital flows to the economy. Over the past decade, reduced inflation levels coupled with improvements in institutions helped Turkey attracting foreign investors. At the same time, a number of authors argue that the signalling of the EU accession negotiations also contributed

significantly to the boost in FDI inflows observed from 2005 onwards. In most cases, this is assessed in a quantitative manner, or simply drawn from stylized facts. In order to contribute to the existing literature, this paper tries to develop a more in-depth understanding of the impact of regional integration on FDI by looking at the content of legal agreements signed by Turkey, as well as the international and geopolitical context.

Regional Integration and FDI in Turkey: A Qualitative Framework of Analysis

It has been argued in recent studies that the official start of accession negotiations with the European Union is one of the main factors explaining the significant increase in FDI flows to Turkey observed in the second half of the past decade. If that is right, it is important to try to understand why FDI did not start to flow earlier, considering that Turkey signed a Customs Union agreement for industrial products with the European Economic Community in 1996, a notable step ahead in regional integration. This section discusses the role of regional integration in foreign investment drawing from the qualitative analysis framework elaborated by Blomstrom and Kokko.[36]

Why is regional integration alleged to help boosting foreign direct investment attraction? From a static point of view, the impact of integration on intra-regional FDI inflows is indeterminate. On the one hand, a negative impact of a regional trade agreement (RTA) on horizontal FDI could be theoretically expected, as reduced tariffs makes “tariff-jumping investment” less necessary. On the other hand, the RTA may positively influence vertical FDI, as relocation of part of the production chain within the region is easier (lower cost to re-export back). In addition, strategic asset seeking FDI is expected to increase following regional integration. In what regards extra regional flows, both the tariff-jumping and internalization models predict an increase in investment. However, the location of inward capital may be uneven, leading to winners and losers within the region.[37]

Apart from a reduction in trade barriers (tariffs, quotas, etc.), a Regional Trade Agreement often contains other clauses such as specific investment provisions, rules of origin and Trade Relate Investment Measures (TRIMs). An improvement of the investment framework or a reduction of TRIM requirements is likely to foster inward FDI. Finally, the literature has also identified a dynamic channel through which regional integration may foster investment even further. A larger regional market free of obstacles to trade and investment would theoretically allow further specialization, originating positive agglomeration effects, scale economies in certain industries, as well as pecuniary and knowledge spill overs.[38] However, it is worth mentioning that the evidence on the existence of these dynamic effects –often invoked to justify FDI attraction measures- is still inconclusive, and results often depend on the region and sector considered.[39]

Regional integration: Customs Union agreement with the EU and inward FDI in Turkey

In 1996 Turkey signed a Customs Union agreement with the European Economic Community, adopting a common external tariff for most manufactured products, and eliminating all the customs duties, quotas and charges affecting bilateral exchange. This has helped Turkey, significantly boosting trade with the EU. According to recent simulations, the value of Turkish exports to the EU and EU exports to Turkey would have been 3.0-7.2 per cent and 4.2 per cent less, respectively, if they had signed a free trade agreement instead of a custom union.[40] Another positive contribution of the Customs Union is that it has facilitated the integration of Turkey into regional value chains. Even if the Customs Union has been successful in fostering trade, a series of limitations (persisting restrictions in trading agricultural products, road transport permits, EU visa restrictions) and asymmetries (in Turkish participation in the decision making, negotiations with third countries, etc.) would need to be addressed to update the agreement and maximize its potential in the current international context.

From the point of view of foreign direct investment, the signature of the 1996 Customs Union agreement was expected to result in an increase of extra-regional flows to Turkey, since foreign multinationals could use the country as an export platform to serve the EU. Additionally, a raise in vertical FDI from Europe to Turkey would offset the theoretical decrease in the number of previously installed market seeking multinationals, since they do no longer face tariffs and can serve the Turkish market from the country of origin.

By looking at FDI inflows by country of origin, it is possible to observe that European investors were already dominating foreign investment in Turkey prior to 1996. When comparing the 1980s and the 1990s, except for the Netherlands (plus thirteen per cent), the United Kingdom (minus seven per cent) and Switzerland (minus seven per cent), there are not significant variations in most of the countries’ share of contribution to FDI in Turkey. The Customs Union agreement apparently did not alter the share hold by EU investors (EU15), which stayed around

65 per cent both before (1994) and after (1998) the agreement; only punctually, in 1996, there was an upsurge in Turkish inward FDI dominated by EU investors (85 per cent). In addition, in relative terms, total FDI flows to GDP did not increase compared to the previous year. In fact, aggregate FDI inflows remained stuck around 0.5 per cent of the Turkish GDP. In this case, a greater degree of regional integration did not lead to a significant boost on FDI from European or extra-regional investors, an unexpected result according to the theory. Nonetheless, it is worth noting that European FDI to Turkey was already more substantial than flows from the United States (averaging less than eight per cent of total flows to Turkey in 2000-2010), a country that does not hold trade agreements with Turkey. Turkish scholars have traditionally pointed mainly to macroeconomic and political instability as the major deterrents for additional foreign investment during the 1990s. Persistency in low flows may also have to do with the fact that there were no significant shifts in comparative advantages when Turkey joined the Customs Union with the European Community.[41]

In turn, this paper argues that the nature of regional integration processes influence the amount of FDI inflows. The EC-Turkey Association Council of 1995[42] decided on the implementation of a Customs Union (except for agricultural products, coal and steel), which was considered as the final stage envisaged in the Ankara Association Agreement of 1963. The decision encompassed free movement of goods (there are not specific provisions for services) and the alignment of Turkey with the European Community common customs tariff, including preferential arrangements with third parties and harmonization of commercial policy measures; it also suggested approximation to EU intellectual property, competition and taxation laws.

However, the removal of technical barriers and the alignment of commercial policy with that of the EU were envisaged to be progressively applied over a five-year period. This could partly explain why there was not an immediate surge of FDI following the signature of the Customs Union. In addition, some of the accompanying reforms (e.g. competition, removal of subsidies) were not fully implemented. After all, a Customs Union agreement does not imply full capital mobility, like that enjoyed by the members of a Common Market.[43] Therefore, changes that were introduced were not sufficient to appeal investors, as some authors had claimed they would be.[44] Related to this, other authors argue that excessive red tape, a static bureaucracy, rent seeking activities, the lack of a stable investment framework, and interferences at the local level acted as deterrents of FDI.[45]

Overall, the 1996 Customs Union agreement between Turkey and the EU was successful in fostering foreign trade in manufacturing (its main purpose). However, it did not result in a significant boost in FDI attraction, probably because it did not entail wide reforms on the business and investment framework beyond trade preferences. It is also worth acknowledging that economic and political instability during the 1990s and the early 2000s, coupled with administrative hurdles, may also partly explain why Turkey did not experience a significant increase in FDI inflows in the second half of the 1990s.

Regional integration: the impact of EU accession negotiations on FDI

In the period beginning in 2003, and especially from 2005 onwards, there was an outbreak of FDI flowing to Turkey. Why has this phenomenon happened relatively late, and not before, when the EU and Turkey signed the Customs Union Agreement? It may be argued that, in the last decade, apart from improved economic and political stability, deeper reforms aimed at preparing Turkey towards EU membership facilitated an improvement of the investment climate and expectations of a fast expansion in economic activity.

Talks around the accession of Turkey to the EU officially started in 2005. The negotiating framework contains provisions regarding 35 chapters of the *acquis communautaire*.[46] Thus, Turkey has been working to implement new commitments in areas such as free movement of goods, right of establishment to provide services, competition policy, financial services, energy, regional policy or the Customs Union.[47] Therefore, accession negotiations involve much more comprehensive reforms than the Customs Union Treaty (that basically dealt with just two of these chapters), which improves business climate and enhances investment framework.

Cross-country evidence suggesting that ¨…*it is in fact the signaling of the membership and the road to membership, rather than the final membership itself, that has the great effect* [on FDI]¨.[48] By taking a look at the evolution of foreign investment flows to Turkey over the past decade, it is possible to observe that the surge in capital started in 2005, and the momentum lasted at least until 2008. Accession prospects for Turkey somewhat cooled down as the EU had to focus in finding a way out of the crisis, and enlargement conversations lost relevance in the agenda of member countries. At the same time, the latest reports by the EU point to a slow and an unequal implementation of reforms aimed at aligning Turkey with the *acquis communautaire*. To date, accession negotiations have been opened on thirteeen chapters[49] out of

a total of 33, and only one of them (Science and Research) has been provisionally closed.[50] Even if EU authorities report an advanced stage of alignment in free movement of goods or intellectual property rights, other chapters such as free movement of capital present a more modest progress, and there are many areas in which reforms are still incipient. In addition, prevalent restrictions on the relationships between Turkey and Cyprus prevent, since the end of 2006, the opening for negotiations of eight chapters,[51] including the right of establishment. Thus, slow developments and weaker membership prospects could help partly explaining why Turkey is not seeing nowadays the same level of FDI inflows observed in 2006-2008.

Blomstron and Kokko proposed a qualitative theoretical framework to assess overall impact of regionalization on FDI attraction according to the location of the host country and the degree of environmental change derived from the agreement. From this perspective it is possible to explain the differences in performance of different members of the same regional integration agreement.[52] For example, Portugal, Spain and Greece joined the European Community in 1986; however, while Portugal and Spain were able to double their average yearly FDI inflows to GDP in 1986-1990 compared to the first half of the eighties, Greece did not significantly increase its levels during that decade. This could be explained by the fact that, even when membership encompassed similar environmental changes (and opportunities) for the three Mediterranean countries, Greece was by that time relatively isolated in terms of location from the rest of the European markets. Similarly, it is possible to observe that CUSFTA agreement has had a lower impact for Canada than the NAFTA treaty for Mexico. This is explained by the fact that NAFTA is an extended version of CUSFTA that considers deeper integration (stronger "environmental change"); additionally, Mexico has an advantageous location in the region with respect to Canada.[53]

In the same fashion, it might be argued that the Customs Union Agreement signed by the EU and Turkey in 1996 did not help the latter attract FDI significantly because it did not imply a strong "environmental change". As previously mentioned, the scope of the agreement was limited mainly to trade clauses, whereas technical barriers and obstacles to investment persisted. Therefore, despite its theoretically advantageous location to serve Europe, Turkey had still constraints hampering the attraction of foreign investors in the second half of the 1990s.

[figure 2 comes about here]

On the other hand, the beginning of the EU accession negotiations was accompanied by a wider and deeper set of reforms in different fields such as business, economics, politics or even human rights. Convergence towards the EU's *acquis* was understood as an almost mechanical way of Europeanization.[54] This wider and more credible "environmental change" helped improve both the investment climate and business expectations in Turkey. Therefore, now it can be argued that the Turkey-EU accession partnership should be located in quadrant one, together with other regional agreements contributing positively to FDI. In addition, Turkey moved a bit towards the left hand side of the graph, reflecting increasing locational advantages, as ten Eastern European countries joined the EU in 2004.

Furthermore, it may be argued that, given that Turkey is not a member of the EU yet, the relative position of the Accession Negotiations agreement may change dynamically over time. Weakening membership prospects would mean that the expected environmental and "doing business" change in Turkey could be narrower than initially expected. This could result in international investors aiming at serving the EU market being less prone to establish their facilities in Turkey.

How did the beginning of accession negotiations between Turkey and the EU affect the geographical origin of FDI flows? Even when it would very difficult to isolate the effects of regional integration on capital flowing to Turkey, stylized facts lead to the intuition that it was in fact a relevant factor. Both intra and extra regional flows increased significantly since 2005, when the EU gave green light to the accession process. At the same time, it is worth mentioning that these developments took place in the context of expansion in global capital flows; in fact, FDI flows declined sharply in 2009 and 2010, in the context of global economic slowdown, and with cooling down EU accession perspectives for Turkey.

Interestingly, even when FDI flows from EU members increased in absolute terms in 2005-2008, in relative terms, Middle Eastern and other European investors were more avid in bringing capital to Turkey (flows from these regions increased by 29 and 23 times respectively in 2005). This seems to conform to the theory that predicts that FDI with third countries outside the region are more likely to increase than intraregional FDI when a regional integration treaty is signed.[55] Indeed, EU accession negotiations are accompanied by a series of improvements in

the business framework and a series of positive externalities from which not only EU companies but also investors from other countries expect to benefit.

By sector, following the beginning of the EU accession negotiations, the largest foreign investments in Turkey took place in financial intermediation (47 per cent of total FDI inflows in 2005-2008), transport, storage and communications (21 per cent), and wholesale and retail trade (six per cent). This gives us the intuition that services and market oriented FDI dominated the inflow upsurge, which is in line with previous empirical evidence.[56]

[Table 1 comes about here]

In 2009-2013 it is possible to observe a different sectoral distribution pattern, as FDI directed towards manufacturing in Turkey recovered some of its relative weight, whereas financial intermediation and transport and communications contracted sharply. At the same time, foreign investment in Turkish utilities and energy surged. At this point, one may argue that the more recent surge in foreign direct investment in financial intermediation, telecommunications or energy and utilities sector was motivated by privatization, rather than by geopolitical considerations and the EU energy strategy. If the weight of privatization operations were large, that would mean that the rise on FDI may be a transient phenomenon after which Turkey will return to inflow levels of 0.5 per cent to one per cent of GDP. Most of the papers on privatization in Turkey are from the early 2000s,[57] previous to the acceleration of reforms after 2005. Data and reports from the Turkish Privatization Administration is gathered to focus on operations involving FDI. As shown in the figure, privatization related foreign direct investment inflows were especially important in 2005, when the partial sale of Türk Telecom represented most of the FDI inflows in the country. In 2006-2009 they represented 25 per cent of total FDI inflows, which is significant, but cannot per se explain the arrival of large capital inflows to Turkey. In fact, it is possible to observe that privatization did not have to do with the robust expansion in FDI to the energy sector in 2010-2013.

[Figure 3 comes about here]

Privatization probably contributed to recent FDI upsurge in two ways: directly by selling some State Owned Enterprises to foreign investors; and indirectly, by promoting the image of a more solid and liberalized Turkish economy around the world. But, overall, it is possible to affirm that privatization was not the main factor explaining the increase in FDI flows to Turkey.[58] Nonetheless, aside from privatization, it is worth highlighting that the role regulatory liberalization is likely to have played for foreign investment attraction in certain sectors such as telecommunications and electricity, in many cases under the auspices of the EU.

To sum up, the Customs Union Treaty of 1996 did not help significantly enhance foreign investment or change the origin of inward FDI flows to Turkey. Foreign direct investment only boomed once Turkey's accession negotiations to the EU officially started. The different impact of both regional integration processes on foreign investment obeys to the different provisions considered in the agreements, as well as their implementation. The paper argues that the EU-Turkey Accession Partnership has a much wider scope (entailing reforms in the business environment) than the Customs Union Treaty (mainly referring to trade clauses and preferences). It is also worth mentioning that the Customs Union Treaty was agreed in a period of political instability and weak governing coalitions in Turkey, whereas institutional and economic stability significantly improved over the past decade. This is likely to have also played a major role in the attraction of larger FDI inflows. It is worth noting that the view of the private sector in Turkey, in general, coincides with the argument that the boom in FDI inflows observed after 2005 was mainly caused by EU accession negotiations.[59]

Recently, the global financial and economic crisis coupled with weaker EU accession prospects resulted in net FDI to GDP in Turkey losing some steam (1.2 per cent on average in 2009-2013, compared to 2.7 per cent in 2005-2008). Only large foreign investment in electricity and energy has prevented the collapse of FDI inflows. The next section discusses to which extent this phenomenon is related to the geostrategic position of Turkey as a hub for energy corridors.

Case Study: The Energy Sector in Turkey

Energy is arguably a very attractive sector for foreign investors in Turkey for three main reasons: recent legislative reforms, the relevance of Turkey for the energy security strategy of the EU, and an accelerated liberalization process. This section discusses the role of each of these three elements in the upsurge in FDI inflows to the sector observed since 2009 in Turkey. Contrary to other views, it is argued that the relevance of Turkey in the energy strategy and the transnational-network plans of the EU —and, concretely, the projected Nabucco corridor— were more central to the attraction of FDI than privatization *per se*.

Reforms and issued laws in the energy sector

The reforms in this field are still ongoing, which implies that liberalization and competition frameworks are under improvement.

On the March 3, 2001, an Electricity Market Law (EML, No. 4628) was issued to set the framework for a more competitive and transparent electricity market. The old state owned utility entity, TEAS, was divided into three new companies, in order to separate electricity transmission, generation and commercialization activities. Similarly, on the May 2, 2001, a Natural Gas Market Law (NGML, No. 4646) came into force with the ultimate purpose of liberalizing the sector. It includes provisions to force a progressive diminution of the gas import contracts in the hands of BOTAS to twenty per cent in 2009.[60] On the November 19, 2001, the Energy Market Regulatory Authority (EMRA) was created. Its purpose is to regulate the markets, issue operating licenses in the different sectors (Electricity, Gas, and Petroleum) and, ultimately, help achieve the transition to competition.[61] Later, the Petroleum Market Law (PML, No. 5015, December 20, 2003) and the Liquefied Petroleum Gas Market Law (LPGML, No.5307, March 13, 2005) removed import quotas and liberalized market activities in the oil and LPG sectors.

These and related reforms in the energy sector have been encouraged by the dialogue between Turkey and the EU. Following the European Council of Helsinki (December 1999), a first Accession Partnership for the new candidate state was issued by the Council of Europe. The document emphasized the need of improvements in the energy chapter with the progressive acquisition of the EU *acquis communitaire*, the establishment of an independent regulatory authority and the implementation of the electricity and gas Directives. Since then, the EU has been issuing regular progress reports, as well as updating the Accession Partnership, always monitoring developments in the energy sector.

When the implementation of reforms is slow or insufficient, the EU reflects it in the documents and asks for a strengthen dedication to match requirements. For example, the European Commission denounced in 2007 that BOTAS still imported 86 per cent of the natural gas consumed in Turkey, when, according to the law, by 2009 the share of the company should be of only twenty per cent.[62] This example illustrates the fact that in some areas competition remains limited. Yet, it also proves the EU commitment to monitor the liberalization of the energy sector in Turkey. In this sense, the pace of liberalization in the energy sector is expected to remain linked to the progress made in European integration.

It is also important to note that Turkey is an observer of the Energy Community Treaty (ECT), which includes the EU, the Balkan countries, Moldova and Ukraine. The ECT provides an alternative to energy integration insofar it contains provisions almost identical to those in the *acquis communautaire*; however, it does not constitute such a powerful signal of regulatory alignment (as happens when comparing the customs union with accession).

The Geo-strategic relevance of Turkey as an energy hub

The role of Turkey as an energy bridge between East and West has been widely studied from a geo-strategic and energy security perspective.[63] The dependency from foreign energy sources caused a severe crisis in Turkey during the 1970s, as oil price surged, and with them current account deficit and inflation. Since then, and given the lack of significant oil and gas reserves, Turkey tried to take advantage of the geographical position in order to be part of different energy corridors that can help to diversify supplies. The attraction of foreign direct investment depends also on market conditions, and there is evidence that in fast FDI growth periods (such as 2005-2010), FDI inflows to Turkey are negatively correlated to the price of electricity and the prices of oil and gas in the domestic market.[64]

In addition, strategic decisions in the energy field are intimately interlinked to foreign policy and the relationships with energy-rich neighbouring countries (Russia, Iran, Iraq, Azerbaijan, Kazakhstan, Turkmenistan, etc.). Approximately three quarters of world´s proven natural gas and oil resources are located in Russia, the Middle East and Caspian Regions. Turkey´s national energy policy involves reducing dependency and diversifying geographically the sources, ensuring sustainable, high quality and cheap supplies, and functioning as a transmission hub.[65]

The key role of Turkey in natural gas and oil distribution is formally recognized in the Trans European Energy Networks project (TEN-E) and the Energy Security Strategy of the European Union.[66] This signalling may have helped fostering foreign direct investment into the sector. Even if oil and natural gas deposits in Anatolia are scanty and national production is low,[67] Turkey is very relevant as a transit country, as it is considered a potential alternative route to diminish EU dependency on Russian natural gas.[68]

With regards to oil, Turkey counts with two pipelines to import crude from Azerbaijan and Iraq. Both routes end at Ceyhan, one of the main crude export seaports in the Mediterranean Sea, together with Izmir and Istanbul. All of them count with refineries in their proximities; Turkey exports part of their production of refined oil and derivatives to different countries such as Italy, Singapore or even the United Arab Emirates. Still, it is important to bear in mind Turkish dependence on Russia and Iran, its main oil suppliers, which complicates Turkey's political alliances and regional strategy. On the other hand, Turkey has some leverage on the transit of ships through the Bosphorus, and has recently limited the size and the number of tankers going through the straits. This is one of the reasons why Russia is considering several projects to by-pass the Bosphorus.

In terms of natural gas, Turkey is being supplied through ground routes coming from Russia (Blue Stream and West Pipeline), Iran (Shah Deniz pipeline) and Azerbaijan (Shah Sea pipeline). Turkey is also purchasing Liquefied Natural Gas (LNG) to Nigeria and Algeria, and has recently started to export gas to Greece through an inter-connector that crosses the south straits of the Marmara Sea, and can be used to transport natural gas to Italy. For safety reasons, Turkey also restricts the navigation of LNG carriers through the Turkish Straits, making Mediterranean-Black Sea gas pipelines through Turkey more relevant to Black Sea States. The recent discovery of natural gas in the Eastern Mediterranean Sea, mainly offshore in between Cyprus and Israel, further enhance the relevance of Turkey as a gas corridor for the EU.

Looking ahead, Turkey is willing to take advantage of its strategic geographical position to become an energy hub in between the Middle East, Central Asia and Europe.[69] At the same time, the EU has manifested an interest to build trans-national energy networks and, more concretely, alternative routes to diminish its dependency on Russian gas.[70] In this context, in July 2009, four EU members and Turkey reached an intergovernmental agreement to allow the construction of a large pipeline (31 Billion cubic meters per annum, Bcma) called *Nabucco* to transport Azeri gas to Austria.[71] This flagship European project was for some time one of the best bets for Turkey to eventually become a full EU member. However, Nabucco faced the problem that Azerbaijan itself cannot supply enough gas to fill the pipe. Moreover, there was international controversy with Iran, and the project of a Trans-Caspian link to access Turkmenistan is blocked by legal disputes over Caspian waters.[72] Ultimately, the problems in securing guaranteed supplies of gas for the project resulted in lack of sufficient financing.[73]

In addition, Russia announced a *South Stream* pipeline, going from the Russian Caucasus directly to Bulgaria and Central Europe, as a direct rival *Nabucco*.[74] In December 2011, Turkey conceded to participate also in this *South Stream,* allowing the pipeline to go through its territorial waters. The recent cancellation of the Blue Stream pipeline by Russia, due to the fierce opposition of the EU Commission on the grounds of lack of accordance to European competition regulation, reinforced the Turkish role in the region. Russia then proposed to derive the Blue Stream directly through Turkey towards the Greek border and then to other European markets.

In December 2011, Turkey signed a Memorandum of Understanding with Azerbaijan aimed at building a larger Trans Anatolian Pipeline to transport gas from the Shah Deniz field through Georgia. This may result in *Nabucco* being side lined in favour of this BP-SOCAR project to develop a Trans Adriatic Pipeline (TAP), with capacity to transport 10-20 Bcma. The TAP is planned to be connected to the Trans Anatolian Pipeline (TANAP) and the existing Turkey-Greece interconnector. The Shaz Deniz consortium opted in June 2013 to supply Europe through a Trans Adriatic Pipeline given the limited progress project *Nabucco* has achieved so far.[75] At the end of the day, two culturally close countries are leading the consortium that is going to connect the Caspian see with Europe, rather than a variety of European member countries or Russia, an energy giant, as would be expected.

In sum, there is an authentic geo-strategic competition that is taking place around Turkey in the energy field. In this context, delayed EU accession and recent tensions with Israel may well cause AKP to turn its the back on the traditional allies just to get closer to other main regional actors like Iran or Russia.[76] In fact, in light of delays in the development of the Nabucco project, Turkey is already agreeing on alternative gas routes with Russia and Azerbaijan.

This paper argues that, depending on policy choices and regional integration decisions in the following years, gas and oil will be more likely to flow through one route or the other, thus affecting both trade flows and multinational establishments in the energy sector. Therefore, the capacity of Turkey to become an energy hub will also depend on the energy security strategies of the EU, and energy-related policies emanating from the European Commission. As discussed in the next section, companies such as Austrian OMV, which already invested in Turkey to set the stage for Nabucco, seem to have already suffered a severe downturn in their expectations.

European energy firms may have seen their investment prospects damaged by the alternative, smaller-scale TAP pipeline, which in the end could imply lower potential of energy-related FDI flows to Turkey in the following years.

Foreign Direct Investment and Privatization in energy and utilities

Which are the links between this geopolitical game and FDI in the energy sector in Turkey? A look at the main merge and acquisition operations in the sector reveals that OMV, an Austrian firm, and RWE, German, both participants on the construction of Nabucco, were among the most active actors in utility deals in 2008-2010. At the same time, Gazprom was also positioning itself with the acquisition of Bosphorus Gas. On the other hand, SOCAR (Azerbaijan) increased its presence in Turkey following the signature in December 2011 of the Memorandum of Understanding for the construction and operation of the abovementioned Trans-Anatolian Pipeline.

[Table 2 comes about here]

Strategic movements in electricity, natural gas and oil distribution were facilitated by liberalization in these sectors. Privatization effectively started around the year 2000, and accelerated in the past five years with regards electricity supply and gas distribution. However, upstream industries are not fully opened to international competition yet.

The ongoing liberalization and full privatization of the monopoly held by BOTAS, the Turkish Pipeline Corporation,[77] is probably one of the events most anticipated by foreign investors. The Turkish legislation obligates BOTAS to sell distribution branches, as well as to separate commercialization and transportation activities. These measures are considered by the experts as very favourable to the creation of competition within the Turkish energy sector.[78]

However, it seems that the cooling down of EU accession prospects and recent economic and political instability have resulted in a decline on foreign involvement in energy merges and acquisitions in Turkey, from a participation in total deals of 42 per cent in 2011 to 25 per cent in 2012 and one per cent in 2013.[79] Local companies nowadays dominate energy deals and privatization-related acquisitions. In addition, European companies such as RWE and OMV have not been active in the acquisition market for a while, as the prospects for the completion of Nabucco have been severely reduced.

In sum, this brief geo-political and geo-economic analysis shows how laws (legislative level), international relations (state level) and foreign direct investment decisions (firm/private level) are intimately related. Through the past decade, the energy industry in Turkey engaged in privatization and liberalization processes in the different sub-sectors (electricity, natural gas, oil, renewable sources…) and levels (generation, distribution, commercialization, etc.). These reforms were partly motivated by Turkey’s accession negotiations with the European Union, who is at the same time interested in counting a safe energy corridor through Anatolia. Therefore, it is argued that the evolution of Turkey-EU relations in the future will affect decisions taken by foreign investors in the energy sector in Turkey. Worsening EU membership prospects may delay domestic reforms and difficult the way to European multinationals trying to participate in the Turkish energy market.

Conclusion and a Way Forward

The Turkish economy has been characterized by its difficulties to attract foreign direct investment. According to the literature, macroeconomic and political instability were probably discouraging foreign investors, as sudden stops were frequent in the 1990s in a context of premature capital account liberalization. Net FDI inflows averaged 2.7 per cent of the Turkish GDP in 2005-2008, and 1.2 per cent of GDP in 2009-2013, compared to less than 0.5 per cent of GDP in 1990-2004.

What are the factors that caused the surge of FDI inflows observed after 2005? A recent and increasingly predominant strand of studies argue that, apart from improved economic and political stability achieved over the last decade, the beginning of accession negotiations with the EU in 2005 has significantly contributed to boost FDI. Most of the existing literature tried to "capture" this "EU accession" effect using a dummy variable in cross-country regression or gravity models. This paper, in turn, complements existing empirical evidence by opening this "black box" and attempting to assess which factors and which concrete policy actions explain the recent increase in FDI.

In this sense, a qualitative discussion framework[80] is applied to analyze the potential implications of free trade agreements on FDI. It is argued that the Customs Union Treaty for

industrial products, signed between Turkey and the EU in 1996, was successful in achieving its aim of helping increase bilateral trade flows; however, FDI inflows did not increase because the Customs Union did not imply strong environmental and policy changes for investors, and there was a five-year margin for implementation. In turn, the official start of EU accession negotiations in 2005 encompassed a wide set of reforms in a number of chapters of the *acquis communautaire* that were directly or indirectly affecting the business climate. This is probably one of the most influential factors explaining the post-2005 increase in FDI inflows to Turkey.

In addition, this papers stands that that both developments in accession talks and foreign policy decisions assumed by Turkey will dynamically shape the impact of EU integration on FDI attraction. In the same way the beginning of accession negotiations with the EU functioned as a market signal that helped achieve yearly FDI to GDP inflows six time higher in 2005-2008 than in previous years,[81] the global economic slowdown starting in 2009 and increasing *Euro-skepticism* may mitigate this "EU effect" in the following years. According to the most recent surveys by the International Investors Association,[82] local political turmoil, problems in international financial markets, Turkey´s persistent current account deficit, lack of sustained growth, and the slowdown in EU accession negotiations are perceived as adverse developments that may negatively affect Turkey´s prospects to keep receiving FDI inflows. This would mean that political and macroeconomic stability are re-emerging as the main concerns for foreign entrepreneurs, in a moment in which EU accession prospects for Turkey have already weakened significantly. The country seems to have stated losing the initial boost provoked by the “EU signalling effect” mentioned before.

In fact, in 2009-2013 it is possible to observe a contraction of FDI inflows in relative terms, and only growing foreign investment in the energy sector has prevented a collapse. The marked increase in foreign presence in the Turkish electricity, gas and oil sectors can be partly explained by reforms aimed at liberalization. It is also worth mentioning the agreement between Azerbaijan and Turkey (June 2013) to transport gas from the Shah Deniz field to Europe through a Trans Adriatic Pipeline. This may be partly a result of delays in the agreements leading to the construction of the *Nabucco* pipeline, a project that has been at the centre of the EU energy corridors strategy. With *Nabucco* side lined, the presence of European investment in eventual FDI inflows to the energy sector in Turkey is likely to decrease.

Summarizing, the qualitative analysis shows how, beyond macroeconomic and political stability, state-level decisions such as regional integration processes and the choice of allies from a foreign policy or geopolitical perspective are likely to have an impact on actions taken by foreign investors. Geopolitical alignment in the case of energy corridors means new transnational energy networks being constructed, crowding in FDI from allies but also from third parties. In this regard, this article argues that geopolitics matter, at least when it entails tangible results in the form of new infrastructures, derived from the formulation of new energy security strategies. This has a series of policy implications.

First, a delayed EU accession or the possibility of being marginalized in an eventual EU-US Transatlantic Trade and Invest Partnership[83] are likely to deter European FDI to Turkey in the future. Thus, Turkish policymakers could continue working on the enhancement of the relationship with other neighbouring countries, and the pursuit of other regional integration initiatives should not be ruled out. Here, the Organization of the Black Sea Economic Cooperation, different Middle East and Central Asia countries, Russia and Iran may be considered as potential partners.[84] Working in alternative regional initiatives, Turkey would be able to reduce the dependency on EU investments, continue enhancing its role as a regional actor, and improve its bargaining power with traditional allies.[85] In fact, a change in Turkish foreign policy during the AKP era can be already clearly perceived.[86]

Second, from the point of view of multinationals outside the EU, it can be argued that Turkey will remain being relatively attractive as a country to establish foreign subsidiaries. Turkey counts both with a large and quickly growing internal market (for horizontal FDI) and the possibility of serving as an export platform to sell manufacturing products to the EU (vertical FDI), thanks to the Customs Union agreement. In spite of the fact that progress in some areas of the *acquis communitaire* is slow (free movement of goods, right of establishment and freedom to provide services…), the continuation of EU accession talks is a guarantee of progressive improvement in the business framework.
Moreover, the on going liberalization of utilities and energy transmission in Turkey should appeal the foreign investor. Even if the *Nabucco* pipeline is not finally built, Turkey continues to be at the centre of important international oil and gas corridors, and has a stake in new projects aimed at transporting gas to Europe: the Trans Adriatic Pipeline and the South Stream.

Finally, an implication for both policy makers and researchers around the world is that, apart from macroeconomic, political and institutional stability, regional integration matters for foreign direct investment attraction. But not every kind of regional integration initiative may be sufficient to appeal to the foreign investor. This paper argues that deeper the environmental change the agreement encompasses, the more power it will have in enhancing FDI inflows. Free trade agreements or customs unions with a focus on trade preferences are often unable to help significantly enhancing FDI attraction due to the persistence of red tape and hurdles in the business environment. In turn, most Accession Partnership Agreements signed by the EU and candidate countries seem to have boosted FDI, as they encompass the progressive adoption of the *acquis communitaire*. This is interpreted by foreign entrepreneurs as a guarantee of reforms leading to productivity increases, economic opportunities, and an enhancement in the investment framework.

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Endnotes

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Figure Error! Main Document Only.. **Capital flows and sudden stops in the Turkish economy**

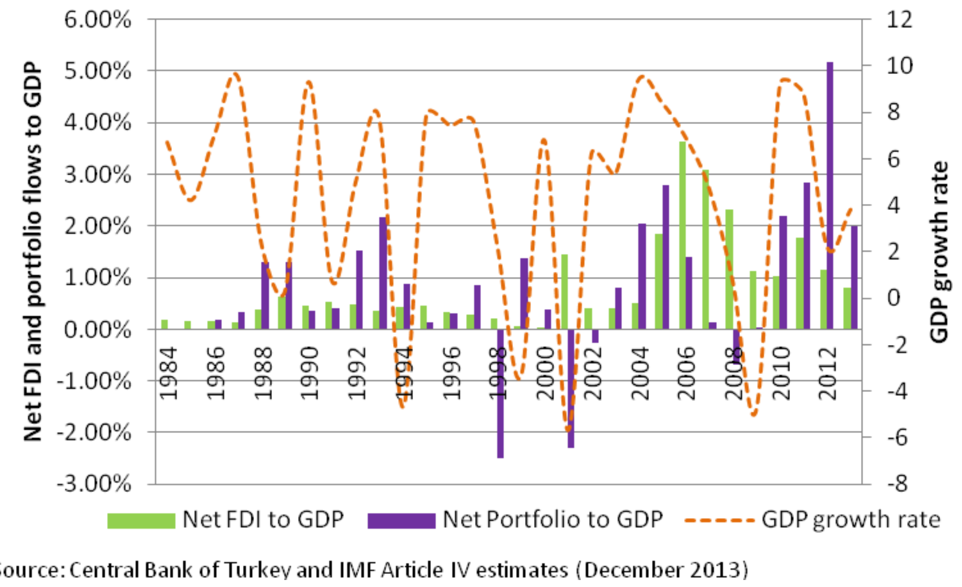
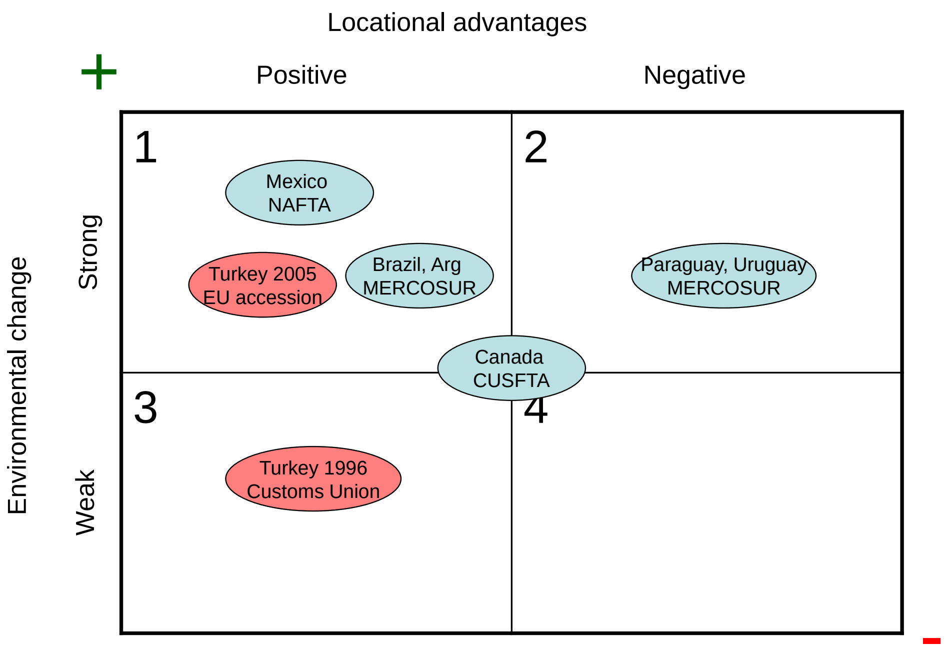


Figure 2. Expected impact of regional integration agreements on FDI.



Sources: Elaborated following Blomström and Kokko (1997a)

Figure 3. Privatization and foreign direct investment in Turkey

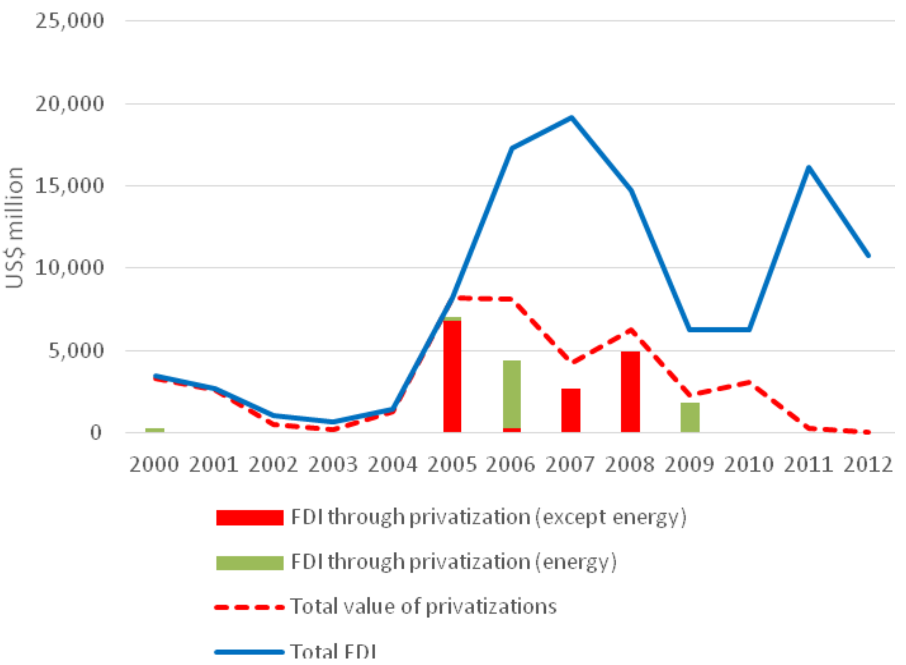


Table 1. Evolution of FDI flows to Turkey by sector over the last decade

Average FDI flows by sector, percent over total	2002-2004	2005-2008	2009-2013
Primary sector (including mining)	3.0%	1.2%	2.4%
Secondary sector	29.2%	17.2%	24.7%
Electricity, gas and water supply	8.6%	2.7%	24.7%
Construction	0.6%	1.5%	5.1%
Transport and communications	18.0%	21.1%	4.6%
Financial intermediation	15.6%	47.7%	26.3%
Other services	25.1%	8.5%	12.2%
Yearly average FDI flows in the period (US$ million)	905	11863	9921

Source: authors' calculations based on Central Bank of Turkey and Ministry of the Treasury data

Table 2. Recent mergers, acquisitions and other operations by foreign investors in the utilities, gas and oil sector in Turkey

Date announced	Company	Stakes %	Acquirer	Origin of investor	Sector
15-Mar-08	Baskentgaz	90%	Global - Energaz - ABN Amro	Turkey - Netherlands	Utilities
23-Apr-08	Kayserigaz	40%	EWE AG	Germany	Utilities
1-Jul-08	Baskent Elektrik Dagitim	100%	Sabanci - Verbund - EnerjiSA	Turkey - Austria	Utilities

1-Jul-08	Sakarya Elektrik Dagitim	100%	AkCEZ	Turkey - Czech R.	Utilities
11-Jul-08	Bares Elektrik Uretim	100%	Italgen SpA	Italy	Utilities
28-Jul-08	Akpet	100%	Lurkoil	Russia	Oil and gas
30-Jul-08	Tasyapi Enerji Grubu	50%	Cogentrix Energy	USA	Utilities
15-Aug-08	Izgaz	90%	GdF Suez	France	Utilities
28-Sep-08	Borasco	60%	OMV	Austria	Utilities
8-Oct-08	Ak Enerji Üretim	37%	CEZ	Czech Republic	Utilities
23-Oct-08	Kayserigaz	40%	EWE AG	Germany	Utilities
23-Oct-08	Bursagaz	40%	EWE AG	Germany	Utilities
9-Dec-08	Polat Enerji	50%	EdF Novelles	France	Utilities
4-Mar-09	Borusan Enerji	50%	EnBW	Germany	Utilities
9-Mar-09	Palmet Enerji	13%	Manitoba Hydro Int.	Canada	Utilities
19-Mar-09	Yesil Enerji	95%	Statkraft	Norway	Utilities
23-Mar-09	E.ON Turcas Kuzey Elektrik	70%	RWE	Germany	Utilities
23-Mar-09	E.ON Turcas Güney Elektrik	70%	RWE	Germany	Utilities
13-Apr-09	Enerco Enerji	40%	OMV	Austria	Utilities
11-Jun-09	EWE Dogalgaz	100%	EWE	Germany	Utilities
17-Jun-09	Borasco Elektrik	15%	OMV	Austria	Utilities
20-Aug-09	Bosphorus Gaz	31%	Gazprom	Russia	Utilities
1-Oct-09	Toreador Turkey	100%	Tiway Oil	Norway	Oil and gas
12-Oct-09	Power Station	100%	RES	UK	Utilities
24-Mar-10	Six local hydro projects	75%	Reservoir Capital	Canada	Utilities
30-Apr-10	Five local hydro projects	100%	Energo-Pro	Czech Republic	Utilities
5-May-10	Amity Oil and Zorlu Petrogas	100%	TransAtlantic	USA	Oil and gas
3-Jun-10	Anel Enerji	5%	Ralos New Energies	Germany	Utilities
2-Aug-10	Aves - S-OIL JV	75%	NuStar	USA	Oil and gas
23-Oct-10	Petrol Ofisi	54%	OMV	Austria	Oil and gas
1-Dec-10	Entek Elektrik	50%	AES	USA	Utilities
10-Feb-11	Thrace Basin Natural Gas	100%	TransAtlantic (35%), Valeura Energy (40%), Pinnacle (25%)	USA, Bahamas, Canada	Oil and gas
21-Apr-11	Arar Petrol and Gas	5%	Niche	UK	Oil and gas
24-Jul-11	Yeni Elektrik Uretim	40%	Ansaldo Energia	Italy	Utilities
28-Oct-11	Aksa Enerji	15%	Goldman Sachs	USA	Utilities
23-Dec-11	Enda Enerji	100%	Hot Rock	Germany	Utilities
28-Dec-11	SOCAR & Turcas Enerji	25%	SOCAR	Azerbaijan	Oil and gas
12-Mar-12	Avrasya Gaz	60%	Prima Energy Trading	Russia	Oil and gas
9-May-12	Petkim	10%	SOCAR	Azerbaijan	Oil and gas
29-Jun-12	AkCez	23%	CEZ	Czech Republic	Utilities
17-Jul-12	Trakya Elektrik Üretim	90%	Inter RAO	Russia	Utilities
10-Sep-12	Karasular Enerji	40%	Aquila Hydropower INVEST	Germany	Utilities
27-Nov-12	Petgaz & wholesale LPG	100%	Rus Oteko	Russia	Oil and gas
4-Dec-12	EnerjiSA	50%	E.ON AG	Germany	Utilities
12-Dec-12	Petrol Ofisi Petrol Arama	100%	Tiway Oil	Norway	Oil and gas
12-Feb-13	Aksa Enerji	3%	Goldman Sachs	USA	Utilities
14-Mar-13	Karasular Enerji Uretimi	60%	Aquila Capital Wasserkraft	Germany	Utilities
12-Jun-13	Benal Danismanlik	100%	Aswar National	Kuwait	Utilities
16-Aug-13	Bagistas II Hydro Plant	100%	Globtec	Germany	Utilities
25-Sep-13	Alpay Enerji	75%	San Leon Energy	U.K.	Utilities
18-Dec-13	Global enerji Elektrik Uretim	15%	Emkaan In+D2:D53vestment	U.A.E.	Utilities

Sources: Pricewaterhousecoopers. Turkey Energy Deals (2008-2014).