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LOCATIONAL PREFERENCES OF FOREIGN CAPITAL COMPANIES IN TURKEY

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ABSTRACT

Due to both its geographical location and its historical relationships the Turkish Republic today acts as a country that bridges markets spread across Northern Africa and the Middle East and has become an important point for foreign investments.

The process of economic transformation occurring today both in Turkey and throughout the world means that the creation of a telecommunications infrastructure capable of providing international level services is essential to Istanbul's future-directed planning and development into an international regional service providing metropolis. The advancement of its transportation and communications systems will give Istanbul the opportunity of competing on global marketplaces.

The legal, financial, and structural actions taken since 1983 and directed towards attracting foreign capital have resulted in an increased amount of foreign investment into Turkey. During the past ten years the country has attracted a significant amount of loans from international institutions and private finance companies.

For hundreds of years Istanbul has been a city that has engaged in trade and provided essential services. Within the framework of its latest efforts to restructure the city so that it can assume a place among the leading cities of today it is imperative that the

behaviour types and mechanical location preferences of foreign capital companies in the Istanbul metropolitan area be analysed.

LOCATIONAL PREFERENCES OF FOREIGN CAPITAL COMPANIES IN TURKEY

1. Introduction

Today the entire world is witnessing the dissolution of trade and customs barriers and the formation of a unified, global market. This integration process means that if they are to attract the global capital investment companies necessary to ensure their country's inclusion in the market, metropolitan areas have to exert great efforts to develop production technologies that can provide the top level services and transportation/communication systems required. Those cities that can provide top line finance and information services are engaged in commerce at international levels (Cohen, 1981).

Due to the tremendous developments that have occurred in the field of telecommunication systems, multi-national companies are able to surpass traditional borders to sell a wide variety of products and services to sales points across the globe. Controlling manufacturing systems via information and computer systems, coordination, marketing, and financial decisions can now all be easily implemented from a distance (Noyelle and Stanback, 1984).

Developments in telecommunications technologies have greatly eased the globalization of world finance markets and have resulted in the formation of close bonds between world cities. This subject has been systematically investigated by Moss (1987 a,b). Moss determined in his research that the globalization of commercial and financial services and the development of telecommunication infrastructures have acted to develop these cities and that these activities have tended to congregate into a few major global cities (Castells, 1992).

The monitoring and coordination of global capital and the production and distribution mechanisms of single market economies are very difficult to implement. This coordination is being carried out internally by metropolises that rank high in the urban hierarchy. The movement of a city to a higher level of functioning within the hierarchy is possible if the specific region within that country engaging in such activities develops its own internal auditing and coordinating system.

In the 90s, following the break-up of the Soviet system, Istanbul was faced with the possibility of becoming the center of a vast hinterland extending from the Balkans to the Caucuses. This development means that Istanbul could take on the role of coordinating all of the production and consumption activities of this huge area.

Istanbul has the communication networks and infrastructure required to develop into a regional center. The major investments made in the communication sector during the 80s have acted to develop the telecommunications infrastructure, thus supporting Istanbul's development into an urban regional communications center. Today Istanbul has one of the world's most developed telecommunications infrastructures and this has given the city advantages in terms of expanding into international markets. In a study made in 1990 comparing the number of telephone lines per 100 persons in developing countries, it was observed that Turkey has twice the number of lines as Thailand, Malaysia, or Brazil (Dökmeci and Berköz, 1996).

In the 1980s Turkey engaged in a restructuring of its relevant economic laws and institutions in an attempt at increasing foreign trade and attracting foreign capital investments. This restructuring lifted prior barriers against foreign banks and permitted foreign banks to open representatives and branches in Turkey. By 1997 there were 32 banks operating with foreign capital in Turkey.

Istanbul provides its visiting international investors with top-level services at its ever-increasing five-star hotels. In 1995 Istanbul had a total of 100 five star hotels. This development has also acted to support conference tourism in the city.

2. Foreign Direct Investments in Turkey and the World

2.1. Foreign Direct Investments

According to figures published by the United Nations Development Agency (UNCTAD), worldwide foreign capital investments have reached a total of 350 billion dollars. Direct investments have increased more than two-fold during the years spanning 1991 and 1996. Direct foreign investments totaling 160 billion dollars in 1991 reached 350 billion dollars by the end of 1995. Between 1991-1996, total foreign investments grew by 17.4% on the average, while investments in developing countries increased 1.5 times with an average growth rate of 26.5%, increasing from 44 billion in 1991 to 141 billion dollars in 1996.

Developing countries had a share of 27.8% in total foreign investments in 1991, but this figure increased to 40.0% in 1996, almost half of total investments.

According to UNCTAD figures, China increased its level of foreign investments twelve times between 1990-1996, from 3.5 billion dollars to 42 billion dollars.

Other outstanding countries in 1996 were Brazil, Indonesia, Poland, Colombia, and Vietnam. These countries showed remarkable performance when compared to the 1990 figures. Between 1990 and 1996 Brazil increased its foreign investments 7.7 times, Indonesia 7.3, Poland 5.0, Colombia 6 and Vietnam 10.5 (Arýman, 1997).

According to figures of the Prime Ministry of Treasury, Turkey increased its level of foreign investments 29 times between 1980-1997, from 35 billion dollars to 1032 billion dollars.

2.2. Foreign Capital Investments in Turkey

The first foreign investments recorded into Turkey were the investments that took place during the constitutional reform period in the Ottoman Empire. The first was the steam-engine driven yarn factory that was built in the city of Bursa by a Swiss investor in 1845. By 1855 the French had also established 8-10 factories in Bursa.

At the end of the 19th and the beginning of the 20th centuries foreign investors in Turkey tended to choose transportation such as railroads and harbor management, infrastructures such as electricity and city gas, and the finance sector with banking and insurance as their main investment sectors. Foreigners also invested in mines located in various regions of the Empire (Cem, 1973).

During the early days of the Republican period, the authorities eliminated the unlimited privileges previously enjoyed by foreign investors and, thus, Turkey lost much of its attraction to foreign investors.

The Foreign Investment Incentive Laws in effect between 1947-1951 were not very appealing to foreign investors. In 1954 the government passed the “Foreign Capital Investment Law,” a law giving foreign investors the same rights as those held by Turkish investors. Economic instability during that period, however, acted as a barrier to investments and only 30 million dollars entered Turkey as foreign investments during the 1951 – 1960 period.

A new foreign trade policy enacted at the end of 1952 was designed to stimulate domestic production through restricting the importation of various products. Up until that

time, Turkish commercial life had been active in the importation of these products, but with the Foreign Investment Incentive Laws, Turkish investors redirected their activities towards producing these products domestically in conjunction with foreign trade partners. During this period investments centered in food, textiles, and other disposable merchandise. Beginning with the 1960s investors turned their attention to durable goods such as appliances and automobiles. Applicable laws were passed permitting the importation of the machinery and equipment required for these kinds of production.

By the end of 1965 foreign capital investments in Turkey had totaled 68 million USD and the number of foreign companies had risen to 122. By the end of 1964 it was documented that 80.3% of all foreign investments into Turkey were located in the city of Istanbul (Sönmez, 1996).

By the end of the 1960s foreign investments were centered within the Marmara region, especially so in Istanbul proper, and these included investments into manufacturing sectors, energy, transportation, and communications. In 1972, 75% of the 110 foreign investment companies operating in Turkey within the guidelines of the Foreign Capital Investment Incentives Law were operating in the Marmara Region. This region accounted for 85.7% of their investments and 58% of total foreign firms had invested at least 50% of their capital investments into Istanbul.

Since 1980 Turkey has been in a process of restructuring its relationships within the world economies. In the 1980s economic, legal, and organizational changes were made, all with the purpose of increasing foreign trade and attracting foreign capital investments. A program was initiated to establish free trade regions in which foreign capital companies would be granted special tax deductions and other more liberal foreign exchange implementations. During the first ten years of these implementations the number of foreign companies active in Turkey increased from 100 to 1813. Direct foreign investments during the years spanning 1980 – 1990 totaled 6.2 billion dollars.

In the pre-1980 period the high trade protection afforded foreign companies active in Turkey propelled them towards an importation-based manufacturing sector. When importation restrictions were eased in the post-1980s foreign investments shifted away from importation-based manufacturing and towards the service sector, a sector providing both high profit margins and requiring relatively low investments (Balkır, 1996). In ten years time the foreign investment share in the manufacturing sector thus shrunk from 73% to 52.2%. During the same period foreign investment share in the service sector rose to 44.7%.

An investigation into the distribution of foreign investment into sub-sectors of the Turkish manufacturing industry reveals that those sectors most favored by foreign investors include cement, automobile and automotive parts, iron/steel, industrial chemicals, other chemicals, the food industry, electronics, tire, beverage, and electric tools and appliances. The service sub-sectors favored by foreign investors include tourism, banking, and insurance.

Subsequent to the increase of foreign trade by 136% during 1980- 1988, foreign sales increased by 18.29% during the same period, while imports rose by 7.72%. The increase in foreign trade can be explained by the increase in shares of foreign sales and purchases within the Gross Domestic Product. In 1979 the foreign purchase share of Gross National Product totaled 4.71% and while foreign purchases in that year totaled 16.23%, by 1987 these rates had risen to 14.94% and 20.96% respectively (Eraydın, 1992).

Most of Turkey's foreign investors come from OECD countries. In 1991, 90% of the total investments equaled 1.74 billion dollars. 1.02 billion of this amount derived from EU countries.

Germany, United Kingdom and Holland lead the list of EU investor countries in terms of numbers of companies. While EU companies have increased 12 fold within the last ten years, non-EU investors have increased 15 times over. Leading investing countries rated in order of investments are United Kingdom, Germany, Holland, and France.

In 1980 following reforms aimed at liberalizing trade laws, EU countries' attraction to investing in Turkey's manufacturing sector lessened while they turned their interest to the agricultural sector. By the close of 1990, 35 EU based countries had invested in that sector.

Despite the fact that EU countries were the first to invest in Turkey's growing textile sector in the 1950s, today very few foreign investors remain in this industry. By mid 1997 there were a total of 47 Germans, 11 British, 8 French, and 16 Italian firms with textile investments in Turkey.

EU countries appear to prefer investing in Turkey's service sector, with investments clustering around tourism, banking, and insurance. Foreign capital investments in tourism account for a total 16% of total investments, with 33% of this foreign investment European Union based.

By 1990 the number of EU based banks with branches and representatives in Turkey had risen to 22.

3. Assessment of Foreign Capital Firms Operating in Turkey.

Information regarding foreign capital investment firms operating in Turkey was taken from the file of the Foreign Investors Association (YASED). According to their report 3707 foreign capital firms were active in Turkey on April 10, 1997.

3.1. Assessment of Foreign Capital Firms According to Numbers

On April 10, 1997 a total of 3707 foreign capital firms were reported to be operating within Turkey. These firms reported a capital of 270,570,631 TL. Of these companies, 98 (2.6%) were operating in the agricultural sector, 963 (26.0%) were involved in industry and 2646 (71.4%) were active in the service sector.

Table 1. Distribution of Enterprises with Foreign Capital by Sectors

Sectors	Turkey		Istanbul	
	Frequency	Percent	Frequency	Percent
Agriculture	98	2.6	19	0.9
Manufacturing	963	26.0	414	19.2
Service sector	2646	71.4	1720	79.9
Total	3707	100.0	2153	100.0

In terms of numbers working in sub-sectors, 124 companies active in industry are operating in the garment industry, while 119 companies have investments in the food sub-sector. Finance constitutes the largest share within the services sector with 1525 companies. This sub-sector is followed by hotel management with 269 foreign capital firms active.

When we look at the year of establishment we can see that there was an increase in the numbers of foreign capital investing firms after 1980. While prior to 1980 the share of foreign investments in total investments was only 1.8%, it rose to 45.7% during 1981-1990 and to 52.4% between 1991 and 1997.

Across tabulation of the sectors in which foreign investment companies are operating and their date of establishment shows a trend towards investments in the service sector which began to occur after 1980. Of the 69 foreign investment companies operating in Turkey prior to 1980, 56 (81.1%) were active in industry, while 12 (17.4%) were operating in the service sector. After 1980 the service sector accounted for 2634 firms (72.4%) while the industrial sector accounted for 907 firms (24.9%). Prior to 1980 the Industrial sub-sectors preferred were the chemical industry, chemical raw material production, and the electronics industry.

Table.2. Distribution of Date of Foreign Capital Establishments

	Turkey	Istanbul
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Date of Establishment	Frequency	Percent	Frequency	Percent
Before 1960	20	0.5	12	0.6
1961-70	37	1.0	13	0.6
1971-80	12	0.3	7	0.3
1981-90	1694	45.7	968	45.0
1991 and after	1944	52.4	1153	53.5
Total	3707	100.0	2153	100.0

An investigation into the distribution of foreign capital investment companies according to origin reveals that 58.9% derive from OECD countries while 20.6% are made up of Middle East or Islamic states. The distribution of OECD country companies shows that Germany leads with 18.1%, followed by the USA with 6.9%, UK with 6.6%, Holland with 5.4% and France with 5.3%. Among the Middle Eastern and Islamic countries Iran leads with 6.9% followed by Syria with 2.9%.

Table.3. Distribution of Enterprises with Foreign Capital According to Countries

	Turkey		Istanbul	
Countries	Frequency	Percent	Frequency	Percent
OECD Countries	2182	58.9	1193	55.4
Middle-Eastern and Islamic Countries	765	20.6	474	22.0
North-African Countries	26	0.7	23	1.1
Eastern-European Countries	51	1.4	39	1.8
C.S.I.	212	5.7	137	6.4
South-East Asian Countries	79	2.1	56	2.6
Other	102	2.8	67	3.1
Global	290	7.8	164	7.6
Total	3707	100.0	2153	100.0

When firms are grouped according to the regions in which they hold investments it has been demonstrated that the Marmara Region (65%) represents the area in the country attracting the most foreign capital investments. Within this region the city of Istanbul represents the area where most of the foreign companies cluster. Istanbul has attracted a total of 58.1% of all foreign investment companies and 89% of all foreign companies active in the Marmara Region. Within the Marmara Region, Istanbul is followed by Bursa (2.1%), Kocaeli (2.1%), and Tekirdağ (1.2%). The second rating region is that of the Aegean with 12.0% of the total foreign investment. Within this region the city of Izmir leads with 7% of total regional investments. Central Anatolia follows with 11.0%. Within this region the capital of

Ankara leads with 9.5% of all investment companies and 86% of total regional investments. The Mediterranean Region attracts 8.8%, followed by the Southeast Anatolian Region (1.6%), the Black Sea Region (1.2%) and the Eastern Anatolian Region (0.3%). Despite the fact that the Southeast Anatolian Region is not attracting investments today when the major waterway and dam project (GAP) underway there is finished this region is expected to be very popular with investors.

Tablo.4. Firms are grouped according to the regions in which they hold investments

Region	Frequency	Percent
Marmara	2411	65.0
Aegean	446	12.0
Mediterranean	327	8.8
Black Sea	43	1.2
Central Anatolia	409	11.0
Eastern Anatolian	11	0.3
Southeast Anatolian	60	1.6
TURKEY	3707	100.0

An investigation into the share of foreign capital within each company's total capital reveals that 55.2% of all companies with foreign capital have a foreign capital share exceeding 76% of the total. While 12.2% of such companies have a foreign capital share ranging from 51 – 75 % with the remaining 24.2% of the companies having a foreign investment share ranging from 26 – 50%. It is thus obvious that more than half of the foreign investment companies operating in Turkey hold a total share equaling 76% of total investments.

Table 5. Investigations into the share of foreign capital within each company's total capital

Share of Foreign Capital	Turkey		Istanbul	
	Frequency	Percent	Frequency	Percent
lower than %25	307	8.3	131	3.0
%26-50	898	24.2	455	15.2
%51-75	454	12.2	246	8.3
Higher than %76	2048	55.2	1321	53.3
Total	3707	100.0	2153	100.0

3.2. Assessment According to Foreign Capital Investment Sectors

Transportation ranks in first place among total foreign capital investments into the manufacturing sector (30,521,380 million TL); transportation is followed by the iron /steel industry (18,726,230 million TL) and the glass products industry (14,796,374 million TL). Banking ranks in first place in the service sector (23,341,282 million TL), followed by the trade sector (22,221,446 million TL), other societal services (18,034,679 million TL), hotels (15,319,039 million TL) and financial services (13,049,578 million TL). The share of FIRE (finance, insurance, real estate) services in total service sector capital amounts to 33%.

When the amounts of capital investments provided by foreign investors in Turkey are evaluated it is observed that the OECD group countries represent the majority share with 55% of the total. The EU countries with the greatest amounts of investments are France (31,804,886 million TL), Germany (22,899,209 million TL), Holland (19,501,492 million TL), and the United Kingdom (12,229,591 million TL). Other OECD countries with considerable investments in Turkey are the USA (26,231,174 million TL), Japan (12,200,277 million TL), and Switzerland (10,191,116 million TL). Among Islamic states Saudi Arabia ranks in first place (10,424,047 million TL).

When an assessment of provinces preferred by foreign capital investors is made it is seen that Istanbul attracts a total of 41.8% of all foreign capital with a total of 113,119,069 million TL. Istanbul is followed by Kocaeli with 9.82% (26,589,796 million TL), Izmir with 8.54% (23,115,439 million TL) Bursa with 7.10% (19,223,312 million TL) and Ankara with a 5.77% share (15,614,321 million TL).

4. An Assessment of the Foreign Capital Investment Companies in Istanbul

According to figures published by YASED, in 1997 there were 2153 foreign capital investments in Istanbul. Of these, 19 (0.9%) were active in agriculture, 414 (19.2%) were in industry, and 1720 (79.9%) were operating in the service sector (Table 1). 78.9% of those companies investing in the agricultural sector and 75.6% of those in the industrial sector were members of OECD countries. OECD countries also represented a majority of those investing in the service sector (50.3%), followed by Middle-Eastern and Islamic countries with 25.3%.

Table 6. Country Distribution by Sector

%	OECD	M.E	N.A	E.E	C.S.I.	SE.A..	Other	Global	Total
Agriculture	78.9	5.3	-	-	10.5	-	5.3	-	100.0
Industry	75.6	9.2	-	1.2	2.2	1.2	2.7	8.0	100.0
Service	50.3	25.3	1.3	2.0	7.3	3.0	3.2	7.6	100.0

When an assessment is made of the dates of establishment of foreign capital investment companies it is observed that 1.5% of such companies were established during the 1961 – 1980 time frame, 45% during 1981 – 1990, and 53.5% following 1991 (Table 2).

Table 7. Years of Investment According To Country Grouping

.%	OECD	M.E	N.A	E.E.	C.S.I.	SE.A.	Other	Mixed	Total
Before 1960	0.5	-	-	-	-	-	-	-	0.6
1961-70	0.6	-	-	-	-	-	-	-	0.6
1971-80	0.2	-	-	-	-	-	-	0.1	0.3
1981-90	24.2	14.0	0.3	0.3	0.1	0.7	1.4	3.9	45.0
1991and after	30.0	7.9	0.8	1.5	6.2	2.0	1.7	3.5	53.5

With a 54.2% share, OECD group countries rank in first place among all country grouping investing into Turkey in the post-1980 period. OECD countries are followed by Islamic states which hold a 21.9% share.

Table 8. Company Foreign Capital Shares According to Sector

%	Agricultural Sector	Industrial Sector	Service Sector
Lower than 25%	0.0	3.0	3.0
26%-50%	0.4	5.5	15.2
51%-75%	0.1	3.0	8.3
76% +	0.3	7.7	53.3

61.4% of foreign capital companies with investments in Istanbul hold more than a 76% share of total capital in their partnership companies. The largest share of these investments is with service sector companies (53.3%).

Of the 23 largest companies providing more than 1,000,001 million TL of investments into Istanbul, 15 are investments into the service sector, while 8 have investments in the industrial sector. Of the 15 companies investing in the service sector, 7 represent investments into the banking sector.

Of the 118 companies with investments ranging from 100,001 million TL to 1,000,000 million TL, 37 are engaged in the industrial sector and 81 in the service sector. Of the 81 companies operating within the service sector, the largest share represents those investing in trade (24), followed by banks (14), hotels (11) and insurance companies (8).

Table 9. Amounts of Capital Investments According to Sector

Sectors/Investment	Lower than 100 million TL	100-1.000 million TL.	1001-10.000 million TL	10.001-100.000 million TL	100.001-1.000.000 million TL	Higher than 1.000.001 million TL	Total
Agriculture	0	8	8	3	0	0	19
Industry	24	114	127	104	37	8	414
Service	282	536	598	208	81	15	1720
Total	306	658	733	315	118	23	2153

1193 of the 2153 foreign capital investment firms operating in Istanbul originate from OECD countries. Of this OECD group, 313 have investments in industry (26.2%) and 865 in services (72.5%). The garment ready-to-wear industry constitutes the largest sub-group within the industrial sector while within the service sector 451 companies have investments in the trade sub-sector.

Of the 30 foreign capital banks operating in Istanbul, 15 originate from OECD countries while 9 come from Islamic States.

According to an assessment of cities of investment cross tabulated with sub-sectors, the majority of foreign capital investment companies operating in Istanbul are involved in the following sub-sectors: trade (49.6%), other activities (7.8%), other social activities (3.7%), and hotels (3.3%). 3.9% of all such companies have FIRE (finance, insurance, and real estate) investments while the share of producer services accounts for 12.5% of the total.

Table 10. Cross Tabulation Tables of Country Groupings and Amounts of Capital Investments

Sectors/Investment	Lower than 100 million TL	100-1.000 million TL.	1001-10.000 million TL	10.001-100.000 million TL	100.001-1.000.000 million TL	Higher than 1.000.001 million TL	Total
OECD	130	361	389	216	81	16	1193
M.E	155	171	111	25	11	1	474

N.A.	2	5	14	1	1	-	23
E.E.	-	15	23	1	-	-	39
C.S.I.	-	30	85	20	2	-	137
SE.A	4	15	29	7	1	-	56
Other	9	19	27	9	3	-	67
Mixed	6	42	55	36	19	6	164
Total	306	658	733	315	118	23	2153

30 (63.8%) of the 47 foreign capital banks operating in Turkey, 25 (49%) of the 51 other foreign capital finance sector companies, and 29 (53.7%) of the 54 foreign capital insurance companies are located in Istanbul.

5. A Cluster Analysis Technique Assessment of Foreign Capital Investment Firms

The data represents the entire membership list of firms registered with the Foreign Investors Association of Turkey (YASED). A cluster analysis technique was employed to analyze the data with the SPSS package program.

The goal of cluster analysis is to identify homogenous groups or clusters. Clustering is the technique of grouping rows together that share similar values across a number of variables. Hierarchical clustering is also called agglomerative clustering because it is a combining process. The method starts with each point as its own cluster. At each step it calculates the distance between each cluster and combines the two clusters that are closest together. This combining continues until all the points are in one final cluster. The user then chooses the number of clusters that seems right and cuts the clustering tree at that point. The combining record is portrayed as a tree, called a dendrogram, with the single points as leaves, the single cluster of all points as the trunk, and the intermediate cluster combinations as branches (Nurosis, 1992).

Results of the data are shown in Figure 1. From the interpretation of the dendrogram in Figure 1, Turkey can be subdivided into four meaningful regions. They are as follows:

***** H I E R A R C H I C A L C L U S T E R A N A L Y S I S *****

Dendrogram using Average Linkage (Between Groups)

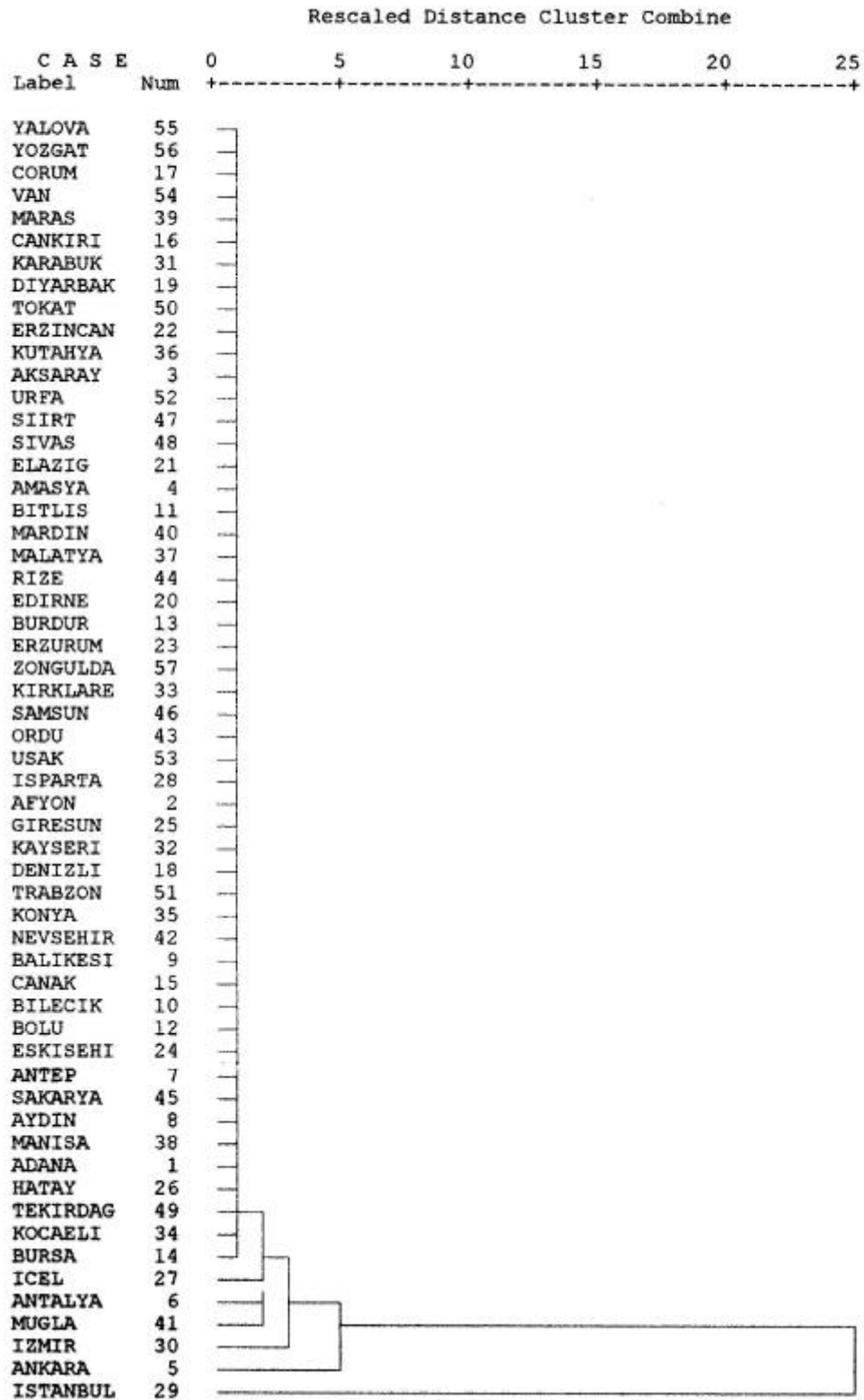


Figure 1. Hierarchical Clustering Dendrogram

Cluster A: This cluster is composed of the cities of Yalova, Yozgat, Çorum, Van, Maraş, Çankırý, Karabük, Diyarbakır, Tokat, Erzincan, Kütayha, Aksaray, Urfa, Siirt, Sivas, Elazığ, Amasya, Bitlis, Mardin, Malatya, Rize, Edirne, Burdur, Erzurum, Zonguldak, Kırklareli, Samsun, Ordu, Uşak, Isparta, Afyon, Giresun, Kayseri, Denizli, Trabzon, Konya, Nevşehir, Balıkesir, Çanakkale, Bilecik, Bolu, Eskişehir, Antep, Sakarya, Aydın, Manisa, Adana, Hatay, Tekirdağ, Kocaeli, Bursa, Ycel.

Cluster B: This cluster is defined by districts and sub-districts of Antalya, Muğla, and İzmir. The first of these is composed of Antalya and Muğla, İzmir constitutes the second well-defined sub-cluster.

Cluster C: Ankara is a very well-defined single area which merges with Cluster B at threshold of 5 units from the origin. Together they define another strong cluster that exists between the thresholds of 5 and 25 units from the origin.

Cluster D: Istanbul is a single area which stands as an isolated unit until the threshold of 25 units from the origin.

6. CONCLUSION

With the increase in foreign capital investments that occurred during the 80s as a result of a legal and organizational restructuring process the number of foreign capital investment companies operating within Turkey increased 29 times. In spite of this increase, when these figures are compared to those of other developing countries, the results for Turkey are still lower than could be expected.

While Turkey enters the 21st century as a country still in the process of developing, the changes in balances that have occurred in the world's political system mean that in the coming century Turkey with its historical, geographical, ethnic ties, and economic potentials in the Balkan, Middle Eastern, and Caucasian regions is very likely to develop into country of significant power.

Following the breakdown of the Soviet System in 1989 Istanbul became a potential candidate as a city acting as the center of a vast hinterland that stretches from the Balkans through the Caucasus, the Turkish Republics, Middle East, and Black Sea regions. Due to its unique geographical location, the metropolitan area of the city of Istanbul will play a significant role in attracting foreign investors and in helping those countries come in contact with world markets, in other words will act to coordinate the production and the consumption of the vast area that stretches from the Balkans to the Caucasus by providing the advanced transportation required to transport their rich natural resources and in assisting them in establishing institutions directed towards market economies.

During its historical development period Istanbul was both a crossroads of the primary trade routes and a harbor city thus allowing it to develop into a center of trade and coordination. This historical advantage continues today due to its unique geographical location. Because of its proximity to regional markets and a variety of natural resources Istanbul holds an important place in the world's economic system and in the globalizing process. In other words, Istanbul has both the potential of controlling a huge inter-regional network and of acting as the center for commercial activities.

In this study the cluster analysis technique was used to group foreign capital firms according to the provinces in which they are operating. A conclusion of the assessments made in this work is that the city of Istanbul is an important focal point and a desired destination for foreign capital investment companies.

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