IMPACT OF FOREIGN DIRECT INVESTMENT ON ECONOMIC DEVELOPMENT: A TIME SERIES ANALYSIS OF TURKEY, 2011-2021

2023
MASTER THESIS
ECONOMICS ADMINISTRATION

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Prepared as

Master Thesis

KARABUK

May 2023

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I certify in my opinion that the thesis presented by Athraa Shaker Ali ALOGAILI entitled "IMPACT OF FOREIGN DIRECT INVESTMENT ON ECONOMIC DEVELOPMENT: A TIME SERIES ANALYSIS OF TURKEY, 2011-2021" is well suited in terms of scope and quality as a thesis for a Master of Science degree.

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Name Surname: Athraa Shaker Ali ALOGAILI

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FOREWORD

I dedicate my graduation and the fruit of my labor to my beloved father, who always showered me with his tenderness, compassion, and supplication, who brought me to this stage that I am in now, and who taught me that the world is struggle and its weapon is and knowledge.

To the one who tamed the hardships for my sake, and reaped the thorns on my path, my comrade and my dear, I dedicate your graduation to my role model, my mother, who taught me giving and overwhelmed me with her tenderness and love, who receives me with a smile and bids me farewell with an invitation to the one who gave me all the giving, may God prolong her life and preserve her as an asset for us...

Thank you to the parents... my dear brothers and sisters who supported me with everything.... friends... distinguished teachers, thank you all.

I did my best not to turn off, knowing that God's kindness covers me every moment.

ABSTRACT

Although countries have different social and economic structures, economic growth is among their primary goals. Investments in the country are one of the most critical factors in economic growth and development. Developing and underdeveloped countries implement specific policies to ensure economic development. Foreign direct investments and economic growth have had an important share in countries' economies. Developing countries tended to search for solutions through foreign investments to the problem of insufficient capital, which is one of the main economic problems. In this case, international investment has accelerated the development of the economies of developing countries. The study investigates the relationship between FDI inflows, outflows, and economic development indicators such as Gross Domestic Product (GDP). Data from the Central Bank World were used to analyze the trends and patterns of FDI inflows and outflows in Turkey over the past decade. The analysis focuses on the impact of FDI inflows and outflows on economic development in Turkey from 2011-2021. The study presents the critical points of research, study design, population, sampling method, measurement of variables, unit of analysis, measurements, and data analysis methods. This study aims to find out the impact of FDI inflows and outflows to provide a significant level of empirical insight to foreign investors in Turkey and also SWOT analysis. The study finds that FDI inflows and outflows significantly impact economic development in Turkey. FDI inflows provide much-needed capital, technology transfer, and job creation, while FDI outflows promote international expansion and diversification of Turkish companies. However, other studies can use factors Different in the model to extend the analysis to include other sectors.

Keywords: Foreign Direct İnvestment İnflows, Foreign Direct İnvestment Outflows, Economic Development, Turkey

ÖZET

Ülkelerin farklı sosyal ve ekonomik yapıları olsa da, ekonomik büyüme hedefleri arasında yer almaktadır. Ülkedeki yatırımlar, bir ülkenin ekonomik büyümesi ve gelişmesinde en önemli faktörlerden biridir. Gelişmekte olan ve az gelişmiş ülkeler, ekonomik gelişimi sağlamak için belirli politikalar uygularlar. Yabancı doğrudan yatırımlar, ekonomik büyüme ile birlikte ülkelerin ekonomilerinde önemli bir paya sahip olmuştur. Gelişmekte olan ülkeler, ana ekonomik sorunlardan biri olan yetersiz sermaye sorununa yabancı yatırımlar aracılığıyla çözüm aramaya eğilim göstermiştir. Bu durumda, uluslararası yatırım gelişmekte olan ülkelerin ekonomilerinin gelişimini hızlandırmıştır. Bu çalışma, Doğrudan Yabancı Yatırım (DYY) giriş ve çıkışları ile Gayri Safi Yurtiçi Hasıla (GSYİH) gibi ekonomik gelişme göstergeleri arasındaki ilişkiyi araştırmaktadır. Türkiye'deki DYY giriş ve çıkışlarının eğilimleri ve desenlerini analiz etmek için Merkez Bankası Dünya verileri kullanılmıştır. Analiz, DYY giriş ve çıkışlarının Türkiye'nin 2011-2021 yılları arasındaki ekonomik gelişimi üzerindeki etkisine odaklanmaktadır. Çalışma, araştırmanın kritik noktalarını, çalışma tasarımını, popülasyonu, örnekleme yöntemini, değişkenlerin ölçümünü, analiz birimini, ölçümleri ve veri analizi yöntemlerini sunmaktadır. Bu çalışmanın amacı, DYY giriş ve çıkışlarının etkisini belirleyerek Türkiye'deki yabancı yatırımcılara önemli bir düzeyde ampirik bir bakış açısı sağlamak ve ayrıca SWOT analizi yapmaktır. Çalışma, DYY giriş ve çıkışlarının Türkiye'deki ekonomik gelişim üzerinde önemli bir etkisinin olduğunu bulmuştur. DYY girişleri, çok ihtiyaç duyulan sermaye, teknoloji transferi ve iş yaratma sağlarken, DYY çıkışları Türk şirketlerinin uluslararası genişlemesini ve çeşitliliğini teşvik etmektedir. Ancak, diğer çalışmalar farklı faktörleri modele dahil ederek analizi diğer sektörleri de kapsayacak şekilde genişletebilirler.

Anahtar Kelimeler: Doğrudan Yabancı Yatırım Girişleri, Doğrudan Yabancı Yatırım Çıkışları, Ekonomik Gelişme, Türkiye

ARCHIVE RECORD INFORMATION

Title of the Thesis	Impact of Foreign Direct Investment on Economic Development: a Time Series Analysis of Turkey, 2011-2021
Author of the Thesis	Athraa Shaker Ali ALOGAILI
Advisor of the Thesis	Assist. Prof. Dr. Essia RIES AHMED ABU RIES
Status of the Thesis	M. Sc. Thesis
Date of the Thesis	27/05/2023
Field of the Thesis	Economy
Place of the Thesis	UNIKA/IGP
Total Page Number	97
Keywords	Foreign direct investment, economic development, Turkey

ARŞİV KAYIT BİLGİLERİ (in Turkish)

Tezin Adı	Doğrudan Yabanci Yatirimin Ekonomik Kalkinma Üzerindeki Etkisi: Türkiye Zaman Serisi Analizi, 2011-2021
Tezin Yazarı	Athraa Shaker Ali ALOGAILI
Tezin Danışmanı	Dr. Öğr. Üyesi Essia RIES AHMED ABU RIES
Tezin Derecesi	Yüksek Lisans Tezi
Tezin Tarihi	27/05/2023
Tezin Alanı	Ekonomi
Tezin Yeri	KBU/LEE
Tezin Sayfa Sayısı	97
Anahtar Kelimeler	Doğrudan yabancı yatırım, ekonomik kalkınma, Türkiye

SUBJECT OF THE RESEARCH

Impact of Foreign Direct Investment on Economic Development: A Time Series Analysis of Turkey, 2011-2021

PURPOSE AND IMPORTANCE OF THE RESEARCH

The research aims to investigate the impact of foreign direct investment (FDI) on economic development in Turkey from 2011-2021. This research is essential for several reasons:

Understanding the role of FDI in economic development: FDI is increasingly seen as a critical driver of economic growth and development, particularly in emerging economies like Turkey. By examining the relationship between FDI and economic development in Turkey, this research can help to shed light on the extent to which FDI has contributed to the country's growth and development.

Informing policy decisions: The findings of this research can be used to inform policy decisions related to attracting and managing FDI in Turkey. For example, suppose the research finds that FDI has had a significant positive impact on economic development in Turkey. In that case, policymakers may want to consider implementing policies that make the country even more attractive to foreign investors.

Contributing to the FDI literature: While there is a large body of literature on the relationship between FDI and economic development, there is still much debate about the causal relationship between the two. By conducting a time series analysis of FDI and economic indicators in Turkey, this research can make a valuable contribution to the literature on FDI.

Providing insights for investors: The findings of this research can also be helpful for foreign investors considering investing in Turkey. If the study finds that FDI has positively impacted economic development in the country, this may encourage more investors to consider Turkey as a potential investment destination.

METHOD OF THE RESEARCH

The data analysis will be by EViews 10 to analyze the relationship between foreign direct investment and economic growth.

HYPOTHESIS OF THE RESEARCH / RESEARCH PROBLEM

Researchers have examined the relationship between investment and economic development in several nations and economies. It is commonly recognized that there is a robust econometric relationship between foreign direct investment and economic development, which numerous writers have previously investigated. Additionally, the link between foreign direct investment and economic growth is shaky.

Turkey had a rise in FDI net inflows. The enormous gap between Turkey and the World average/Latin America became apparent in the 1990s due to negative internal economic and political pressures, but this rise in net flows was not sustained. Due to flaws in the world financial system and financiers' fluctuating risk appetite, FDI net inflows became much more volatile after the 2000s.

POPULATION AND SAMPLE (IF AVAILABLE)

This study has used foreign direct investments and economic growth for Eleven years from 2011-2021.

SCOPE AND LIMITATIONS / DIFFICULTIES

This study focuses on the impact of foreign direct investment on economic development: a time series analysis of turkey. The time under consideration will span the period 2011-2021. The limitations encountered in this study were centered on time, as it took time to acquire the necessary data.

1. INTRODUCTION

1.1. Introduction

Foreign direct investment (FDI) is defined as a firm's acquisition of existing production facilities or establishment of production facilities in countries outside its headquarters to expand its production beyond the country's borders (Seyidoğlu, 2006). FDI is essential in increasing the production of goods and services in an economy, increasing consumption and export opportunities for future periods, and improving natural capital within a certain period. These investments contribute to the production power of the host country (Akman, 2019).

In FDI, the investor has a full or partial decision in the management or control of the firm. A decision in the direction or control of a firm is based on the proportion of shares in the ownership of the firm. When a foreign investor owns 10% or more of a firm's capital, this investment is defined as FDI. A foreign investor owning less than 10% of a firm's capital is considered a portfolio investment. Although both FDI and portfolio investments are foreign capital investments, there are differences between these types of investments (Nur,. & Dilber, 2017).

FDI is foreign investment in the real sector permanent for the host country. These investments are realized by purchasing an existing firm, opening a branch office, and establishing a new firm (Örnek, 2008). FDIs contribute positively to economic development and economic growth. However, in FDI, it is stated that the investor has partial or complete management right. On the other hand, the investor does not have management rights in portfolio investments. While portfolio investments provide only capital to the country, in FDI, the investor provides capital and other elements necessary for production. Portfolio investments with high liquidity can quickly enter and exit the host country. This situation creates risks for the host country. FDI is considered less risky than portfolio investments and is more advantageous for the host country's economy (Köprücü, 2017). FDIs bring essential advantages to the host country, such as transferring capital and technology, increasing productivity, creating more employment, growing exports, and ensuring sustainable economic growth (Osano & Koine, 2016).

FDI has advantages and disadvantages for both international trade and the host country. FDIs have a kind of advertising feature by bringing one country's goods to different countries' markets. In addition, FDIs contribute significantly to the economic development of nations. Regarding host countries, it is seen that EMEs prefer FDI more. These countries need FDI to complete their development (Sahu, 2021). FDI entering the country brings business knowledge and new technology with it. Thus, the country's goods and services recognition in international markets increases. Another advantage is that new facilities are established in the country or existing facilities are restructured. However, FDI also has some disadvantages. The fact that the existing firms of the host country are not at a level to compete with the newly established firms causes these firms to lose their effectiveness in the economy. The constant control and supervision of foreign investors increase their influence on the host country, preventing such negativities from overriding the advantages of FDI, especially EMEs resorting to certain restrictions and regulations.

Along with these regulations, they also develop incentive policies to increase investments in their countries. While countries impose restrictions against external threats they may face economically; they ensure these restrictions are minimal (Kızılkaya, 2014). Otherwise, investors avoid investing in this country. Investors are inclined towards countries that are open to foreign markets and have minimal restrictions. These countries' economic and political stability is also among the critical factors for investors. In addition, the qualified labor force and market size create an attractive effect on FDIs (Kahveci & Odabaş, 2016).

Investors increase the host country's capital in cash and transfer non-cash capital (machinery, equipment, license rights, business knowledge, enterprise, experience, marketing method) and realize FDI (Yıldırım, 2010).

There is no market transaction during this capital transfer. The foreign investor, on the other hand, aims to sell the products produced in the country in another country's market or transfer capital directly to the country by realizing the investment. FDI has recently become widespread in banking, advertising, tourism, and insurance (Blomström, & Kokko, 1997).

FDI creates a dependency from the long-term relationship between the firm and the foreign investor. It is emphasized that the most fundamental factor that

distinguishes FDI from portfolio investments is control and continuity. Foreign investors maintain their investments in more than one country simultaneously. At the same time, the investors' production decisions are determined by the headquarters, or they intervene in the decision-making process of the affiliated firms. The management of a domestic firm in a foreign firm, mergers, partnerships, and acquisitions made to advertise goods and services in foreign firms are included in the subject of FDI. FDI is realized in two different ways: horizontal and vertical (Öğrül, 2014).

Vertical FDI is also referred to as raw material-seeking FDI. Generally, production is shifted to countries where labor is intensive, and wages are lower due to high salaries in the land of the parent firm. The capital-intensive production stages of goods are completed in capital-intensive countries and moved to the firm's home country. In vertical FDI, the differences in wages and quantities of the product to be produced across countries and technological advantages are considered, not the market volume of the home country. Vertical investments are also referred to as forward and backward investments. Backward investments are made for the processing of natural resources. On the other hand, forward investments are made by the parent company by analyzing the markets of foreign countries (Pan & Bo, 2020).

Horizontal FDI is also referred to as market-seeking FDI. This type of FDI has local market-oriented objectives. This type of FDI considers characteristics such as market size, market growth rate, access to regional and global markets, country-specific consumer preferences, market structures and local labor force. In addition, minimizing production costs and maximizing competitiveness are also have great importance. In this type of investment, features such as having more communication with buyers in the local market, being closer in terms of transportation, and being further away from the problems caused by cultural differences are of great importance. In short, in this type of investment, the same good is offered for production in different countries (Halbayev, 2019).

The main reasons for foreign investors to engage in FDI are to realize investments with lower interest rates, overcome trade barriers, and benefit from cheap labor. According to the classical investment theory, FDI increases international investments, national economies gain profits from foreign exchange, maximizes profits, and the labor factor becomes more efficient. Investors are open to foreign

markets for exports, license agreements, and investments (Dücan & Akal, 2017). Investors who realize production at low cost through FDI increase exports and turn FDI into import substitution. It is also among the views that purchasing existing facilities in the country by FDI investors are not considered as FDI but as placement. In other words, while FDI investment contributes to the capital stock, placement is the exchange of this stock. As a result of selling the existing facility, the investor does not benefit the economy but only increases productivity and negatively affects the economy by transferring the income abroad. When the current capital within the country and other foreign investments are considered, it is seen that FDI is not the only solution for growth (Ekinci, 2011). Foreign investments also adversely affect the balance of payments and local facilities, and disadvantages such as environmental damage, imperfect competition, and corruption. It is seen that it is not economically beneficial to eliminate foreign investments or to impose restrictions, and it is stated that it is more appropriate to take measures against the disadvantages listed (Erdoğan, 2012).

1.2. Background of the Study

After the 1980s, the increasing liberalization in the world goods and services markets and the increasingly competitive environment with the process of integration into the world have revealed the importance of FDIs more clearly. The transformation of national capital into investment in another country dates to the 16th century. However, the first concrete steps began in the second half of the 19th century with the industrial revolution. While capital outflows from Europe favored financial investments, investment outflows from the US before World War I began to take the form of foreign direct investment. However, the world economic depression of 1929 led to a decrease in foreign investments and even the liquidation of existing assets (Shiroyama, 2020). Turkey has been making efforts since 1950, especially considering it will significantly contribute to growth (Uygur. 2012).

In 1958, with the establishment of the European Union (EU), it was known that there had been a rapid increase in FDIs. It can be said that American investments, which wanted to eliminate the trade barriers imposed by the EU based on the customs union, were significant in this increase. During this period, it can be stated that FDIs to

developing countries were mainly realized in a few countries that were rich in oil or natural resources. Later, with the outbreak of the oil problem in the world, FDIs slowed down, and it can be said that most of the existing investments originated from the US. After the 1980s, FDIs started to increase, and especially after the collapse of the Soviet Union, there was an increase in foreign capital investments both in that region and in Eastern European countries (Aydemir & Uncu, 2012).

At the same time, from World War II to the 1990s, almost all developed countries aimed to attract FDI through incentives and promotions.

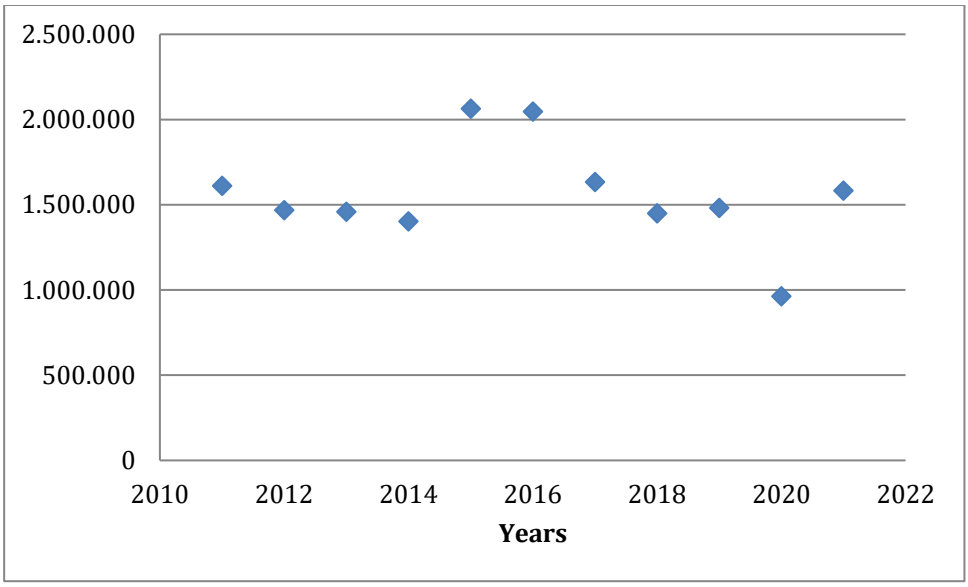


Figure 1 : Global foreign direct investment flows over the last 13 years Source: (Source: : (World Bank, 2022)

As figure 1 shows, global FDI continued to decline in 2018. One of the main reasons for this decline, which has occurred for three consecutive years, is the repatriation of multinational firms' earnings abroad following the tax reforms in the United States at the end of 2017. While FDI shows a rapid downward trend in developed countries and transition economies, it appears to have increased slightly in developing countries.

Existing investment projects have slowed down as a result of the worldwide lockdowns that were established in reaction to the Covid-19 outbreak. In addition, the anticipation of a recession has pushed international corporations to reevaluate future initiatives. The decrease in FDI has been substantially more severe than the declines in

GDP and trade. The decline is strongly skewed towards advanced nations, which saw a decline in FDI of 58%. This decline is partially due to oscillations induced by business transactions and intra-company financial flows. The advanced economies account for a large portion of the decline. A relatively mild fall of eight percent in foreign direct investment (FDI) was observed in developing economies; this was mostly attributable to flexible flows in Asia. Overall, developing economies were responsible for two-thirds of global FDI, which is a decrease from 2019, when they were responsible for just under half of the total. The patterns of foreign direct investment were very different from area to region. The impact that the pandemic has had on investments in resource-intensive and labor-intensive enterprises has had a disproportionately greater negative effect on developing areas and economies in transition. In addition to this, regional differences were caused by asymmetries in the budgetary space available for the implementation of economic assistance programmes. FDI declined by 58% in developed and transition countries, with a more modest decline of 8% in emerging economies, mostly owing to flexible flows in Asia. This was due to the fact that developing economies are more open to new investment opportunities (UNCTAD, 2021).

1.3. Problem Statement

Researchers have examined the relationship between investment and economic development in several nations and economies (Cicea, & Marinescu, 2021). It is commonly recognized that there is a robust econometric relationship between foreign direct investment and economic development, which numerous writers have previously investigated (Hagan & Amoah, 2019; Ali, Shan, Wang, & Amin, 2018). Additionally, the link between foreign direct investment and economic development is shaky (Mawugnon & Qiang, 2011).

Turkey had a rise in FDI net inflows (Gokmen, 2021). The enormous gap between Turkey and the World average/Latin America became evident in the 1990s due to negative internal economic and political pressures, but this rise in net flows was not sustained. Due to flaws in the world financial system and financiers' fluctuating risk appetite, FDI net inflows became much more volatile after the 2000s.

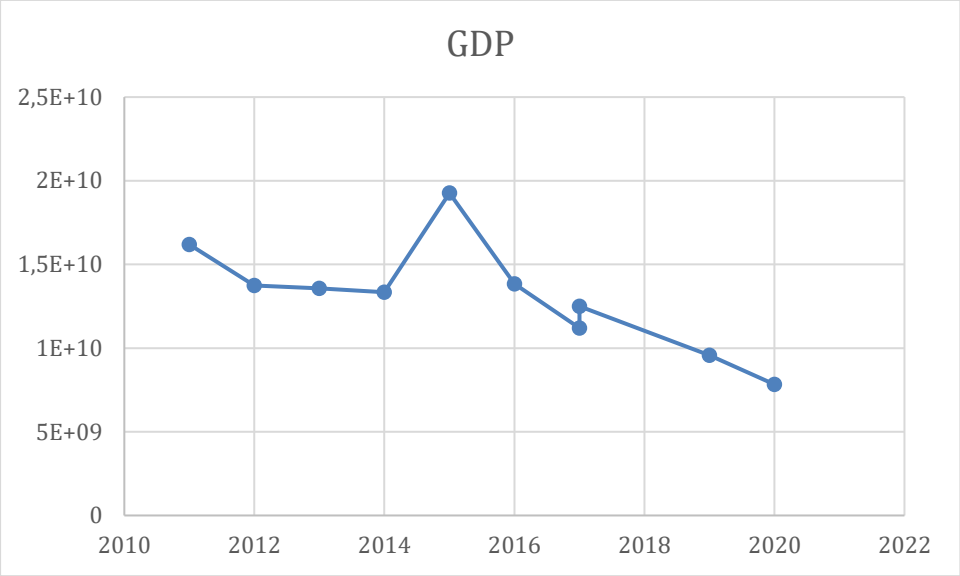


Figure 2: Turkey's FDI and GDP Source: : (World Bank, 2022)

1.4. Objectives of the Study

The study attempts to achieve the following objectives:

- To conduct a SWOT analysis on FDI to provide substantial empirical insight to foreign investors in Turkey.
- To determine the effect of FDI inflows on economic development in Turkey.
- To assess the impact of FDI outflows on economic growth in Turkey.

1.5. Questions of the Study

This research attempts to answer the following research questions to achieve this goal.

- Does a SWOT analysis on foreign direct investment provide significant empirical insight for foreign investors in Turkey?
- Do foreign direct investment inflows influence the economic development in Turkey?
- Do foreign direct investment outflows influence the economic development in Turkey?

1.6. Significance of the Study

This is an important aspect of the research since many studies that examine the effect of FDI inflows and FDI outflows on economic development are country-specific and may not provide an accurate description of the effect of FDI on economic growth in Turkey if applied to that nation. There is some literature on the effects of FDI on economic growth, but more research is needed to better understand the causation between the two.

The global economy has developed and seen a number of significant economic shifts. The recent financial and economic crises, as well as swings in globalisation tendencies, rapid advancements in technology, and other factors have all contributed to these developments. These shifts have had a significant impact on the reaction of policymakers to economic challenges, and experts have actively called for new studies that are time sensitive in order to accurately represent and comprehensively address the concerns at hand. Therefore, this research represents a contemporary and forward-thinking approach to the problems associated with economic growth and related forms of direct foreign investment. This study is important because it presents empirical frameworks and concepts that will considerably expand the existing literature on economic development and foreign direct investment. As a result, the necessity of this study cannot be overstated.

On the other hand, Turkey's economic capacity is on the verge of expanding, and studies are now determining the fundamental explanation for such an increase in economic development. This expansion of Turkey's economic capacity is expected to occur in the near future. As a result, this research contributes new information to the growing body of research on foreign direct investment (FDI) and gross domestic product (GDP) while also making an effort to address knowledge gaps.

1.7. Scop of the Study

Time series analysis of Turkey's economy is conducted to determine the effect of FDI inflows and FDI outflows on GDP growth. The years 2011 through 2021 will be taken into account. The time constraints experienced over the course of this investigation were significant.

1.8. Outline of the Study

There are five sections to this research. The problem and its context are discussed in the first chapter. Both literature evaluations on the effects of FDI on economic growth are discussed in Chapter 2. The entire data collection process is described in detail in Chapter 3. This section provides a thorough explanation of the study's methodology and research approach.

The researcher also detailed their methodology for data collection and the tools they intended to use. The research methods are discussed in Chapter 4. The study continues with a discussion of policy implications, conclusions, and ideas for future research in Chapter 5, which focuses on empirical analysis and presentation of research findings.

2. LITRETURE REIVEW

2.1. Development of Foreign Direct Investment in Turkey in the post-1980 period

Turkey started to change in political, social, and economic terms after 1980. As a result of the 24 January 1980 "Economic Stability Decisions," financial and political stability was achieved, and an environment of trust was created with foreign investment policies. Openness to foreign trade was adopted in the economy, and legislative changes were made in this direction (Erdem, 2020).

After 1954, the fact that the expected foreign capital did not arrive shows that only legal regulations are not sufficient for countries to attract foreign capital (Yavan & Kara. 2003). For this reason, to increase foreign investments after 1980, improvements were made in the foreign capital law, the foreign exchange regime was liberalized, bureaucracy was reduced, customs were lowered, and agreements were made with various countries for the mutual encouragement and protection of investments, expectations regarding privatization increased, and privatization partially started (Güven, 2008).

After 1980, Turkey pursued export-oriented industrialization policies instead of import substitution policies. Table 2.9 shows foreign capital movements after 1980. The 24 January decisions seriously encouraged foreign capital but could not increase sufficiently until 1983 due to reasons such as the 1980 revolution and political instability (Pamuk, 2021). Foreign capital grew with the general elections in 1983 and legislative changes in 1980 and 1986. It exceeded 600 million dollars for the first time with the further liberalization of the foreign exchange regime in 1989. This increase continued until 1992.

The 1994 Crisis led to a decline in foreign capital. After Turkey joined the Customs Union in 1996, the expected increase in foreign capital did not materialize. The Southeast Asian Crisis in 1997, the Russian Crisis in 1998, and the Marmara earthquake in 1999 harmed foreign capital. In 1999, signing a stand-by agreement with the IMF and the Transition to a Strong Economy Programme led to the expected increase in foreign money. In 2001, the highest foreign capital inflow was observed.

The biggest reason for this increase was the foreign capital of 1.4 billion dollars obtained because of the İş Bankası-Telecom Italia partnership and the acquisition of Demirbank by the British HSBC (Şener & Kılıç, 2008).

Table 1: Foreign direct investments in Turkey between 1981-2001

years	incomes (million $)	Outcomes (million $)	Net (million$)
1981	141	46	95
1982	103	48	55
1983	87	41	46
1984	113	0	113
1985	99	0	99
1986	125	0	125
1987	115	0	115
1988	354	0	354
1989	663	0	663
1990	684	0	684
1991	907	97	810
1992	911	67	844
1993	746	110	636
1994	636	28	608
1995	934	49	885
1996	914	192	722
1997	852	47	805
1998	953	13	940
1999	813	30	783
2000	1.707	725	982
2001	3.374	22	3.352

Taken from Presidency of Strategy and Budget, Basic Economic Indicators

High inflation, economic instability, public deficits, growth in domestic and foreign debt accumulation, high actual interest rates, and overvalued national currency explain the lack of foreign capital inflow at the desired level despite liberal decisions taken after 1980 (Orhangazi, & Yeldan. 2021). It is observed that privatizations increase foreign capital inflows in developing countries. Turkey, on the other hand, earned 7.3 billion dollars from privatization between 1986 and 2000. The revenues obtained from privatization and the low share of foreigners in privatization transactions are reasons for the expected increase in foreign capital (Türkiye Cumhuriyeti Merkez Bankası [TCMB], 2000).

Turkey's share of foreign capital inflows worldwide was 0.35 percent on average between 1989 and 1994, 0.13 percent in 1998, 0.07 percent in 1999, and 0.08 percent in 2000. Its share in developing countries was 1.19 percent, 0.50 percent, 0.35 percent, 0.35 percent, and 0.41 percent between 1989 and 1994, 1998, 1999 and 2000, respectively. Turkey's share of foreign capital, both in the world and developing countries, is relatively low (Demir, 2019).

Of the foreign direct investments authorized in Turkey between 1980-2001, 17% were made by France, 14% by the Netherlands, 13% by Germany, 12% by the USA, 8% by the UK, 7% by Switzerland, 6% by Italy and Japan (Özgür, 2014). Between 1954-2001, there were 5,576 foreign-capitalized firms in Turkey. Two thousand nine hundred nine of them belong to EU countries. The least number of firms came from South America, with seven firms. The majority of foreign capitalized firms went to the service sector. The role of foreign direct investments in Turkey's service sector development is quite significant (Kannen, 2020).

Table 2: Sectoral distribution of foreign capital investments between 1981-2000

Years	**Production (%)**	**Agriculture (%**	**Mining (%)**	**Services (%)**
1981-1985	69,6	1,2	0,7	28,5
1986-1990	57,2	2,8	0,9	39,1
1991-1995	68,9	1,4	1,2	28,5
1996-2000	45,7	1,1	0,7	52,6

Source: (Temurçin, 2015)

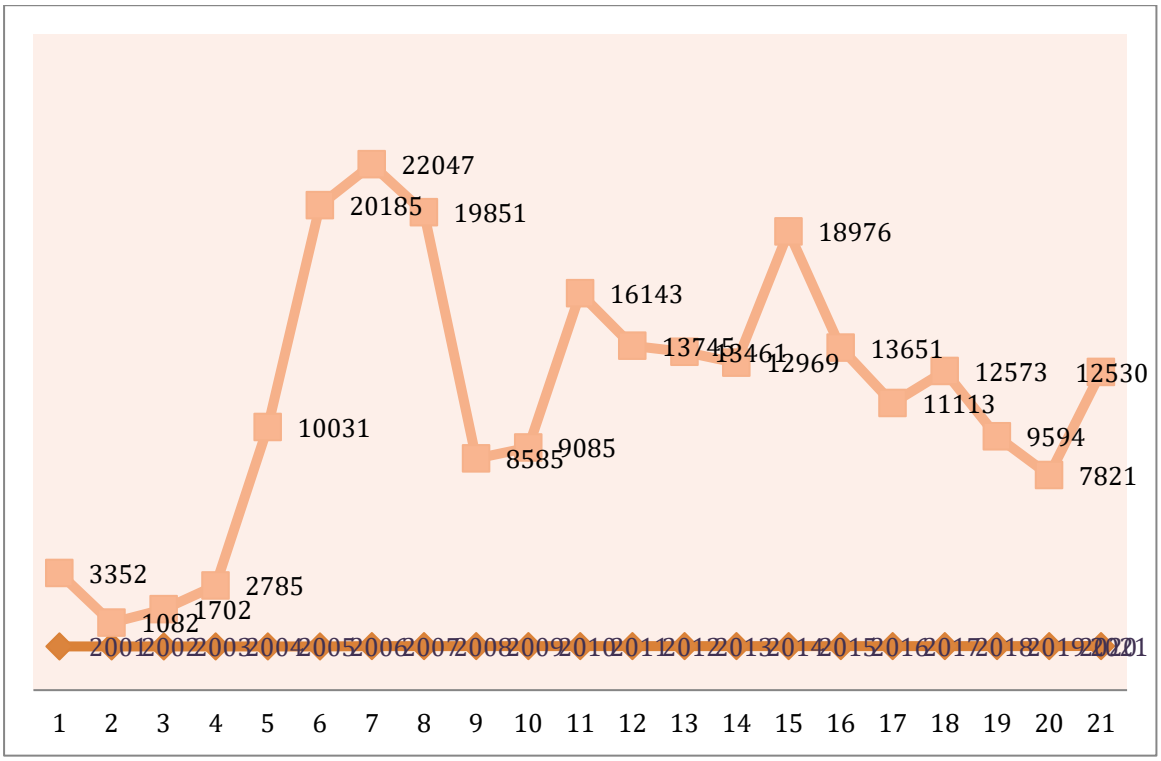
Before 1980, most foreign capital investments were directed towards the industrial sector. As seen in Table 2, the share of foreign investments in the services sector increased between 1980 and 2000. After 1980, it is observed that the sectoral structure has transformed. This transformation is perceived as a normal situation since it takes place worldwide. Both in the world and in Turkey, foreign capitals have shifted from the industrial sector to banking, insurance, tourism, and financial services. Although foreign investments do not prefer agriculture and mining sectors, opening some areas in the agricultural sector to foreign investors and increasing energy

investments with the build-operate-transfer model, have increased the share of foreign capital in these sectors (Jiméne, 2019).

2.2. 2002 and the Period After

Although there were significant increases in foreign capital in the world in the 1990s, Turkey had no significant developments. In the 2000s, there was an increase in foreign capital in Turkey. In this period, there was a rise in mergers and acquisitions, privatization expectations and practices increased after 2004, a single-party government was established after 2003, permits for foreign investments were abolished with the enactment of the "Foreign Direct Investment Law" numbered 4875 in 2003, international arbitration was opened, and real estate purchases by foreigners were facilitated. These developments explain the increase in foreign capital during this period (Karaman, 2019).

As a result of the 2001 crisis, there was a decrease in foreign capital inflows in 2002. Afterward, Turkey, which switched to a single-party government and made progress in the EU membership process, attracted the attention of foreign investors again (Taskinsoy, 2021). Figure 2.1 shows the total foreign investment inflows (Net Liability Formation-NFL) consisting of capital, other capital (net), and non-residents' real estate purchases. As can be seen, after 2005, foreign investments in Turkey increased with the start of the EU accession process and the realization of structural reforms. It reached its highest level in 2007 with USD 22 billion. Due to the global crisis, it declined to approximately USD 8 billion and USD 9 billion in 2009 and 2010, respectively. In 2011, an increase was observed again. Turkey's share in global foreign capital inflows during this period was 1 percent (Orhangazi, & Yeldan. 2021).



Source: (World Bank, 2021)

Figure 3: Foreign direct investments in Turkey

The sectoral development of FDI inflows to Turkey in 2020 and the 2002-2021/September period is presented. Foreign direct investments, which started to shift from the industrial sector to the services sector after the 1980s, continued to be concentrated in the services sector in the 2000s. In 2020, foreign investment inflows totaled USD 5 billion 791 million, of which USD 4 billion 412 million (76.2%) came to the services sector. The next most significant investment after services was in the industrial sector, with a share of 1 billion 172 million dollars and 20.2%. The mining sector attracted $133 million (2.3 percent), and the energy sector $52 million (0.9 percent). The agricultural industry attracted the most minor investment, with $21 million and a 0.4% share.

In 2020, finance and insurance (24.1%), with 1 billion 397 million USD, and telecommunications (24%), with 1 billion 389 million USD, stood out in the services sector. In the manufacturing industry, chemicals (6.7%) with 388 million USD, and refined petroleum products (3.2%) with 188 million USD are the prominent sub-sectors.

In 2002-2021/September, cumulative foreign investments entering Turkey amounted to 172.6 billion USD. Of these investments, $108.4 billion and 62.8 percent belong to the services sector. The $41.5 billion inflow to the manufacturing industry accounts for about a quarter of foreign investments. The energy sector attracted 10.6 percent, mining 2 percent, and agriculture 0.4 percent of assets over the 20 years.

Table 3: Foreign direct investments in Turkey by sector

Sector	2020 (million $)	2020 (%)	2002-2021 September (million$)	2002-2021 September (%)
Agriculture	21	0,4	696	0,4
Mining	133	2,3	3.529	2
Production	1.172	20,2	41.553	24,1
Food-beverage-tobacco	113	2	9.443	5,5
Chemistry	388	6,7	6.873	4
Refined petroleum products	188	3,2	5.101	3
Main metal industry	46	0,8	4.540	2,6
Computer-electronics and optics	125	2,2	4.226	2,4
Non-metallic products	11	0,2	2.193	1,3
Textile-clothing-leather	27	0,5	2.265	1,3
Rubber plastic	15	0,3	1.860	1,1
Transport vehicles	45	0,8	2.145	1,2
Paper	63	1,1	1.054	0,6
Machinery equipment	16	0,3	845	0,5
Furniture	135	2,3	910	0,5
Food and wooden products	0	0	98	0,1
Energy	52	0,9	18.333	10,6
Services	4.412	76,2	108.440	62,8
Finance and insurance	1.397	24,1	54.999	31,9
Telecommunication	1.389	24	15.172	8,8
Wholesale and retail trade	572	9,9	14.256	8,3
Transport and diploma	525	9,1	8.122	4,7
Construction	97	1,7	5.462	3,2
Real estate activities	75	1,3	3.461	2
Human health and social service	85	1,5	2.451	1,4
Accommodation and food services	73	1,3	1.349	0,8
Other services	199	3,4	3.168	1,8
Water supply waste management	1	0	79	0

Taken from Ministry of Industry and Technology, International Direct Investment (IDI) Statistics.

The distribution of foreign investments in Turkey by country groups is given in Table 3. In 2020, European countries dominated the foreign investment inflows with a share of USD 3 billion 760 million and 65%, compared to other countries. Similarly, European countries have the largest share in the 2002-2021/September period with a share of USD 124 billion, 759 million, and 72%. EU countries have made the most investments in European countries with 113 billion 892 million dollars and 66% share.

In 2002-2021/September, the second highest investment came from Asian countries with 31 billion 177 million USD and 18% share. Gulf countries have invested the most, with a share of 7% from Asian countries. America had a share of 14% in 2020 and 9% in the 2002-2021/September period.

Table 4: Foreign direct investments in Turkey by country

Region	2020 (million $)	2020(%)	2002-2021/ September (million$)	2002-2021/(%)
Europe	3.760	65	124.759	72
European Union	3.482	60	113.892	66
Other European countries	278	5	10.867	6
America	816	14	15.436	9
USA	813	14	13.999	8
Other American countries	3	0	1.437	1
Asia	1.197	21	31.177	18
Gulf countries	561	10	12.400	7
Middle East countries	193	3	9.440	5
Other Asian countries	443	8	9.337	5
Other countries	18	0	1.258	1
Total	5.791	100	172.630	100

Taken from Ministry of Industry and Technology, International Direct Investment (IDI) Statistics.

Table 4 shows the top 10 countries with the highest foreign investments in Turkey in 2002-2021/September. The Netherlands ranked first with a cumulative share of USD 27 billion 187 million and 15.7%. The USA took the second place with approximately 8 percent and the third place the UK with 7.4 percent. After these three

countries, there are EU countries until Azerbaijan, which ranks 10th. Austria, Germany, and Luxembourg have cumulative investments of more than 10 million USD.

Table 5: Foreign direct investments in Turkey by country

Order	Country	2002-2021 September (million$)	2002-2021 September(%)
1	Holland	27.187	15,7
2	USA	13.999	8,1
3	England	12.796	7,4
4	Austria	10.717	6,2
5	Germany	10.594	6,1
6	Luxembourg	10.359	6
7	Spain	9.648	5,6
8	Belgium	8.929	5,2
9	France	7.694	4,5
10	Azerbaijan	7.244	4,2
top 10 countries		119.167	69
Other countries		53.463	31
Total		172.630	100

Taken from Ministry of Industry and Technology, International Direct Investment (IDI) Statistics.

The number of companies with foreign capital in Turkey is given. The number of companies with foreign capital in Turkey has reached 74,020. The most significant number of companies belongs to Syria, with 12,908 companies. After Syria, Germany ranks second with 7,667 companies and Iran with 6,399 companies. Azerbaijan ranks 7th with 2,563 companies. Neighboring countries such as Syria, Iran, Iraq, Ukraine, Greece, and EU member countries such as the UK, the Netherlands, France, and Italy are among the top 20 countries with the highest number of companies in Turkey.

Table 6: Number of companies with foreign capital in Turkey

Order	Country	Number
1	Syria	12.908
2	German	7.667
3	Iran	6.399
4	England	3.227
5	Iraq	2.058
6	Holland	3.009
7	Azerbaijan	2.563
8	Russia	2.404
9	USA	1.971
10	France	1.618
11	Italy	1.515
12	Egypt	1.417
13	Saudi Arabia	1.400
14	Jordan	1.198
15	China	1.162
16	Libya	1.078
17	Switzerland	973
18	Austria	962
19	Ukraine	792
20	Greek	786
Top 20 countries		56.107
Other countries		17.913
Total		74.020

Taken from Ministry of Industry and Technology, International Direct Investment (IDI) Statistics.

2.3. Geographical Distribution of FDI Firms in Turkey

In 2015 and 2016, when the FDI stock to Turkey was analyzed according to the country of the first investor, it was seen that the Netherlands made the highest investment in Turkey, as seen in Table 7.

Table 7: Turkey's FDI Stock - Capital Investments Initial Investor and Final

	2015				2016			
Country	first investor	Final investor	quantity change	(%) change	First investor	Final investor	Quantity change	(%) change
Holland	27.311	17.863	-9.448	-34,6	23.629	15.989	-7.640	-32,3
Germany	14.259	18.667	4.408	30,9	13.396	17.099	3.703	27,6
Luxembourg	8.928	5.147	-3.781	-42,3	7.984	4.919	-3.065	-38,4
United Kingdom	10.441	16.808	6.367	61,0	7.568	12.441	4.873	64,4
USA	5.094	6.824	1.730	34,0	4.346	5.874	1.528	35,2
UAE	4.573	920	-3.653	-79,9	3.733	841	-2.892	-77,5
Japanese	1.916	2.755	839	43,8	1.978	2.809	831	42,0
Ireland	1.824	194	-1.630	-89,4	1.732	209	-1.532	-87,9
Saudi Arabia	1.239	4.929	3.690	297,8	1.042	3.968	2.926	280,8
Greek	4.910	4.962	52	1,1	114	153	39	34,2

Investor Classification for Selected Countries (Million USD) Suorce : (Berkoz, & Turk. (2009).

In 2015 and 2016, FDI investments in the Netherlands, which ranked first, decreased. In this case, the fact that the Netherlands is not a final investor but an intermediary country is influential. Among the ultimate investors, the United Kingdom accounts for 49 percent, South Korea 10 percent, and Switzerland 7 percent. Other countries that have intermediate FDI investments are Ireland, Luxembourg, and the United Arab Emirates. Luxembourg's ultimate investor is Germany with 81 percent, Ireland's is the United Kingdom with 83 percent, and the United Arab Emirates is Saudi Arabia with 96 percent (Garcia-Bernardo et al., 2017).

In 2018, when the regional distribution of the source countries of FDI to Turkey is analyzed, it is seen in Table 8 that Europe ranks first as the source region with the largest share of 65%. Three thousand six hundred thirty-eight million USD of the 6,710 million USD investment was made by the European Union countries. Asia followed this with a share of 27 percent, the Americas with 7.4 percent, and African countries with a share of 0.6 percent. Compared to 2017, the countries with a noticeable regional increase in foreign direct investments are Asian and American. In 2018, there was an increase in investments originating from the USA compared to 2017.

Table 8: Countries that invested FDI in Turkey (2018)

Order	Countries	FDI INPUT (million $)	Share %
1	Holland	833	13
2	Azerbaijan	516	7,9
	Italy	509	7,8
4	Austria	465	7,1
5	USA	446	6,8
6	England	409	6,2
7	Germany	349	5,3
8	Luxembourg	329	5
9	France	293	4,5
10	Taiwan	246	3,7
	Other	2,139	32,7
	Capital inflow	6,534	100

Suorce : (TCMB, 2019)

2.4. Sectoral Breakdown of FDI in Turkey

When looking at the sectoral distribution of FDI inflows to Turkey, it is clear that prior to 1980, most investments went towards the manufacturing sector, but after 1980, due to globalisation and related developments in investments, the focus has shifted to the services sector.

This chart illustrates the allocation of foreign direct investment (FDI) into various sectors of the Turkish economy from 2013-2018. Accordingly, as of the year 2018, the top three areas receiving the most investments are those pertaining to the purchase of real estate, the provision of services, and the manufacturing industry. Manufacturing was the most favoured sector, with $1,999 million in the industrial sector, when we look at the most desired sector share based on sub-sectors. This is because manufacturing contributed the most to the industrial sector. Wholesale and retail trade brought in $1,116 million, making it the most lucrative subsector of the services industry; finance and insurance brought in $1,041 million, making it the second most lucrative subsecto (Özdemir, 2002).

Table 9: Sectoral Breakdown of International Direct Investments in Turkey in 2013-2018

($Million)	2013	2014	2015	2016	2017	2018
Food drinks and tobacco products	475	451	983	706	198	504
Manufacture of other non-metallic mineral products	29	158	112	24	64	330
Manufacture of chemicals and chemical products	272	491	340	288	142	321
Coal and refined petroleum products	236	101	1,809	0	0	164
Manufacture of computer electronic and Optical products	607	926	142	242	157	149
Electricity, gas, and steam	1,794	1,131	1,338	677	371	679
Services	5,086	4,313	6,278	4,42	5,35	3,625
Wholesale and retail	379	1,137	599	688	1,077	1,116
Finance and Insurance	3,415	1,47	3,516	1,766	1,464	1,041
Banks	1,608	912	2,775	1,323	1,137	756
Holding activities	229	226	438	272	288	167
Insurance activities	1,538	199	117	128	5	38
Transport and diploma	364	594	1,524	635	1,333	490
Accommodation and Food and beverage activities	59	24	11	250	82	238
Real estate purchases(net)	3,049	4,321	4,156	3,890	4,643	5,915
Agriculture	47	61	31	38	29	44
Industry	5,390	4,258	5,784	3,067	2,022	2,865
Production	2,84	2,742	4,237	2,24	1,202	1,999
Other financial activities	40	133	185	42	34	80
Total	13,563	13,337	19,274	13,95	11,546	13,163

Source : (T.R. Presidential Investment Office, 2020)
Source: Central Bank of the Republic of Turkey, "Balance of Payments Statistics"

According to Table 9, It is illustrated below how foreign direct investment (FDI) flowed into various parts of the Turkish economy between 2013 and 2018. As a consequence of this, as of the year 2018, the most significant investments have been made in the purchase of real estate, the service industry, and the industrial sector. If we look at the most desired sector share based on the sub-sectors, manufacturing was the most selected sector, with $1,999 million in the industrial sector. This was determined by examining the most preferred sector share. Wholesale and retail trade, which brought in a total of $1,116 million in investments, and the banking and insurance industries, which brought in a total of $1,041 million, are the service sectors that drew the largest investments.

In 2017, the manufacturing sector received 47.5% of the total foreign direct investment (FDI) that was channelled into the industrial sector. In 2018, the manufacturing sector improved on its performance from the previous year, maintaining its first-place position with 70%. When compared to 2017, the mining industry had a decline in 2018, falling from 17% to 6%. In 2018, the percentage of businesses engaged in the provision of electricity, gas, steam and air conditioning fell from the previous year's level of 35.5% to 24%.

With a share of 30.5% of the total service sector market in 2017, the financial and insurance industry held the position of most significant. Within the services sector in 2018, the wholesale and retail industry achieved the highest ranking. Following closely behind in popularity was the financial industry. In 2018, the banking and insurance industry was responsible for bringing in 29% of the total direct investments. In 2017, the wholesale and retail sector placed third with 10.5% of the market share. In 2018, however, it ranked first in the services sector with 31% of the market share. The transportation and storage industry dropped from second place in 2017 with 28.4% of the market share to third place in 2018 with 13% of the market share, making it the third most desired service investment sector. When compared to 2017, foreign direct investment inflows into the information communication and construction industries were lower in 2018.

2.5. Economic Incentive Policies for Foreign Direct Investments in Turkey

Turkey offers a comprehensive investment incentive program to encourage foreign direct investment. These incentives are intended to accelerate investment returns by minimizing set-up costs for zero investments and growth-oriented investment projects. The incentives also include projects in priority sectors categorized as essential for economic development and technological transfers. In Turkey, exporters are supported with many grants, incentives, loans, research and development, innovative projects, and supplementary programs for additional processing (T.R. Presidential Investment Office, 2020).

The objectives of the investment incentive system, which is implemented in line with the objectives set out in the annual programmes together with the development plans in Turkey, are to increase international direct investments, increase production and employment, reduce regional development differences, encourage regional and strategic investments with high R&D potential, direct investors to high value-added investments, reduce the current account deficit by increasing the production of intermediate goods and products with high import dependency, and determine the procedures related to supporting investments with high and medium-high technology in line with technological transformation (Coskun. 2001).

2.6. Types of economic incentives for foreign direct investment in Turkey

In Turkey, the incentives granted to foreign direct investors are categorized according to their purpose, scope, stages of giving, and the instruments used to provide various facilities to investors at almost every stage of their investments (TEZCAN, & YANIKTEPE,. 2006).

Table 10: Classification of Incentive Instruments

Incentives by purpose	**Incentives for r&d activities, incentives for kombis, incentives for regional development**
Incentives by scope	Customs exemption, vat deferral, credit guarantee support, investment interest support
Incentives according to the stages of issuance	Pre-investment incentives, investment period, operating period incentives, post-investment incentives
Incentives according to the tools used	Same incentives,

Source : (Alıcı, A. 2019)

2.6.1. Classification of Incentive Instruments

Incentives given according to their objectives aim to minimize the risks entrepreneurs may face, increase competitiveness, increase investment and production, accelerate economic development, enable technological development with R&D, minimize development differences between regions, and improve exports and similar objectives (Tatar & Yurdadoğ, 2017).

- Incentives according to scope:

According to their scope, incentives are available in two types, general and particular; customs exemption, VAT deferral, credit guarantee support, and investment interest support are used as instruments. Incentives that cover the country's whole economy without sectoral discrimination and have equal rates are called available incentives in this class. Special incentives are offered for a specific region, sector, and firm. Special incentives include instruments such as favorable loans and credit guarantee support provided for R&D investments as well as interest support for assets to be made by SMEs (Duran, 2003).

- Incentives according to the stages of granting:

Incentives, which can be analyzed under three headings pre-investment, investment period, and operating period incentives, are called "Incentives According to the Stages of Granting." Cash, in-kind and technical supports given at the beginning of investment projects are "Pre-Investment Incentives." The incentives offered at this stage aim to provide support, primarily to small investors at the initial steps, such as project selection and feasibility. "Investment Period Incentives," the most commonly used form of investment incentives, are designed to eliminate regional imbalances and ensure economic growth and are given to make new investments or develop and improve existing assets. "Operating Period Incentives" have the same characteristics as investment period incentives, but they are incentive instruments that can directly affect the economic situation of the investment. The tool frequently used in this type of incentive is related to taxes (Redonda et al. 2019).

- Incentives according to the tools used:

"Incentives According to the Instruments Used" can be analyzed under in-kind, cash, tax, and other incentives. In-kind incentives are privileges that reduce or eliminate cost elements by providing various exemptions and advantages to investor firms and investment regions and sectors (Tatar & Yurdadoğ, 2017). On the other hand, cash incentives are given to the investor in cash without repayment and are a severe element (Whited & Xiao. 2021). Tax incentives are incentives that reduce the tax burden by granting investors privileges and tax facilities through tax legislation changes. Direct tax incentives are tax incentives given to economic units within the framework of corporate tax (Tulu, 2021). In the Incentives According to the Tools

Used, elements such as cheap energy utilization, infrastructure preparation, and privileged public agreements are the tools in the other incentive group.

2.7. Types of Foreign Direct Investment

The categorization of FDI into types is driven by different reasons and investment conditions firms' investments shape. FDIs are classified according to ownership status, location choices, and privatization status.

2.7.1. By Ownership Status

Investments by ownership status are divided into four categories: inter-firm mergers and acquisitions, joint ventures and wholly owned subsidiaries, strategic alliances, and privatization FDI.

2.7.1.1. Mergers and Acquisitions

Mergers and acquisitions are often the shortest routes to a foreign market. Such investments offer the opportunity to take advantage of critical factors that make growth more profitable without incurring technological development costs and similar costs. It is argued that this method is unfavorable to foreign investors for some reasons (Enayat, 2017). These reasons include difficulties arising from differences in religion, nationality, customs, and traditions, political problems arising from the acquisition or merger of a domestic firm by a foreign investor, employment problems arising after the acquisition or merger, adverse effects such as payments or changes in contracts (Seyidoğlu, 2006).

The adverse effects of mergers and acquisitions are generally intended to deter investors. In inter-firm unions, the merger of two small firms into one large firm or two large firms into a single firm is among the accepted types of FDI. This type of FDI usually takes the form of acquiring an existing firm or establishing a new firm. In addition, only one of the firms continues to exist after the merger, and the shareholders own shares in the new firm. The firm's management consists of the managers of the merging firms (DePamphilis. 2019).

A merger is defined as the combination of all firms' resources to increase their shares, weight, and productivity in the market, losing their legal assets, and establishing a new facility (Teece. 2019).

The era of economic and financial globalization has accelerated the pace of inter-firm mergers. A large portion of investment activities in the economy is realized through mergers and acquisitions. According to 2005 data, the share of investments realized through mergers and acquisitions in total assets is 78%. These investments facilitate the expansion of production volume, increase in income gains, and cheaper purchase of technological innovations (Kabaklarlı, 2008). However, the privileges of the host country, political problems, and changes in cost agreements cause these investments to be negatively affected (Hsieh & Vu. 2019).

2.7.1.2. Joint Venture and Wholly Owned Subsidiary

A joint venture is an association of one or more firms, persons, or organizations, where at least one of them intends to expand its activities to generate profits for a sustained period. The main difference between a joint venture and a wholly owned subsidiary is whether at least one of the domestic firms is a partner. If the investment is made solely to establish a new firm with the partnership of foreign investors, it is considered a wholly owned subsidiary. However, if there is a partnership of both domestic investors and foreign investors, this is called joint venture investment. Factors such as the cultural structure, religious beliefs, market type, technological structure, consumption habits, and savings rights of countries are analyzed to determine which of these two investment types should be applied (Nyame-Asiamah & Debrah . 2020).

Joint ventures involve venturing in different segments or forming an alliance. Joint ventures invest by combining the brand power, production experience, and technological advantage of foreign firms with the market knowledge and distribution line strengths of domestic firms. Such investments provide specific benefits for the domestic partner. The domestic partner has the advantages of being familiar with the host country's culture, having the necessary knowledge about the organizations, and being free from political problems. In contrast to these advantages, disadvantages

include reduced freedom and elasticity, control of the local firm, political differences, and transfer fees (Li & Wang, 2019).

In carrying out their activities, joint firms establish a firm to carry out certain activities together and agree to provide this firm with financial and commercial support from their firms. In this context, joint venture agreements are signed between the investor firm and the firm where the investment will be realized. The investor firm learns about the knowledge, experience, laws, and customs of the market of the country of investment through the partner domestic firm. However, joint ventures do not have a wide sphere of dominance like full-ownership firms (Mutlu, 2011).

2.7.1.3. Strategic Partnerships

Strategic partnerships are formal agreements made for their purposes due to firms coming together and transferring their resources to at least two autonomous organizations. Strategic alliances differ from joint venture investments because they allow firms to make decisions up to a certain point and are more elastic (Kanter. 2019). Strategic alliances are seen as a type of FDI widely used recently. The main objective of this method is to share R&D activities, to enter the market at the appropriate time, and to utilize the benefits of joint marketing and service provision (Basterretxea & Landeta, 2019).

In this type of investment, each firm exchanges its stock. If the firms engage in an undertaking in production or promotion on behalf of each other, this is referred to as a strategic merger. These factors lead to results that restrict competitiveness (Ray. 2022).

There are three types of strategic partnerships. The first one takes the form of a firm exchanging a certain number of shares with another firm. This is not considered sufficient and is likened to a portfolio investment type. In large strategic partnerships, both firms exchange the claims in question and, simultaneously create a merger within the scope of the manufacturing target. R&D activities are significant in branches that utilize the advanced technology to ensure the market entry period is well chosen. On the other hand, joint marketing and merger agreements are applied in strategic partnerships (Sofuoğlu, & Koçak,. 2022).

2.7.1.4. Foreign Direct Investment Realized through Privatization

FDI through privatization is defined as the complete or partial takeover of state-owned commercial and industrial enterprises and assets by private enterprises. This type of FDI provides privatized firms with up-to-date management information, technical know-how, technological innovations, and a qualified labor force. Privatizations, considered less risky than other types of investment, also positively impact the cost in the markets (Zhan & Zhu, 2021).

2.7.2. License and Authorization Agreements

License agreements are permission agreements to benefit from some legal dispositions (know-how, trademarks, patents) operated in the intangible industry. Also, in license agreements, one firm allows another firm to use its process of obtaining products, brands, and patents in exchange for a specific price. Authorization agreements are a more advanced version of license agreements. With these contracts, the authorizing company offers the other party the management mechanism consisting of a management system, marketing, and product that it has already tried and succeeded in its own country (Felek, & Çağlar, 2017).

2.7.2.1. Foreign Direct Investment in the form of New Firm Creation

FDI in the form of new firm creation is divided into three types: greenfield investments, brownfield investments, and acquisitions.

2.7.2.2. Green Space Investments

Greenfield investments are defined as establishing a new firm by a foreign investor in a country outside the home country's borders. These investments increase the capital stock of the host country. Although the initial cost of these investments is high and the return on investments takes time, they are expected to create positive effects for the host country. The foreign investor aims to open a business in the host country with these investments. In addition, the foreign investor seeks to maximize its profits by using its production method and technology. The negative effects of such

assets are the slow process of entering the host country market (Contractor & Raghunath. 2020).

Green space investments increase the totality of the domestic country's assets, productivity, and available labor force in the country. It offers the investing company or individuals the opportunity to establish a facility. However, it is not possible to enter this market quickly. Compared to acquisitions and partnerships, it takes longer to earn a net return on investment. Green space investments require domestic land supply, the elimination of unemployment, and the investor's management, know-how, and technology. In this way, foreign investors combine other large and domestic organizations into a single entity (Mızırak et al, 2010).

Green investments create new employment opportunities in the markets of the countries they enter. These investments are more common in declining areas of EMEs that have lost their activity. The investor realizing this investment, aims to establish a facility within its means (Majid. 2020).

2.7.2.3. Brownfield Investments

Brownfield investments result from a foreign investor acquiring a firm or organization. The investor does not prefer to utilize the factors of the country in which they will invest, as they foresee that it will be more effective to comply with their production procedure. FDI in creating new firms is also referred to as a hybrid type of investment between the other two investment types (Babic & Heemskerk,. 2020).

This type of investment occurs in EMEs through investments generated through acquisitions converted into new projects. These investments may not meet the expectations of domestic firms. Therefore, the investor directs the firm to other investments, and because of this situation, it utilizes its resources with the presence of the new facility (Kabaklarlı, 2008).

2.7.2.4. Acquisitions

This investment occurs when one or more foreign investors acquire a firm in the host country. In this type of investment, foreign investors use the production factors of the host country without changing them (Guisinger. 2021). In addition,

these investments are also considered a type of FDI that allows the host country to enter the market in a short time. This type of investment arises because of foreign firms acquiring the shares of domestic firm owners. Unless the foreign investor expands or reorganizes the firm, it is a type of investment that does not have the effect of increasing production and creating new jobs. Moreover, in this type of investment, the resources used in the facility are provided by the country where the investment is made. This differentiates this type of investment from green field investments (Gocer & Dam, 2012).

2.7.3. Investments by Location in Production Chains

According to their place in production chains, investments are divided into three categories: vertical, horizontal, and holding.

2.7.3.1. Vertical Investments

Despite all the advances and liberalization in transportation and communication, there are differences in factor prices and endowments across countries. In this case, production is divided into stages in production processes that require different factors. These stages are shaped according to the countries where factors are cheaper. The labor-intensive phase is shifted to countries where labor is more affordable, and the capital-intensive location is shifted to countries where capital is more inexpensive. For example, parts of an automobile produced in Germany are purchased from countries with lower costs. In this type of investment, countries with skilled labor are preferred for factors such as R&D and manufacturing management, while countries with unskilled labor are generally preferred for the installation phase. In addition, due to high transportation costs, this type of investment is realized in a country close to the market (Akar, 2010).

2.7.3.2. Horizontal Investments

Horizontal investments are considered a type of investment that aims to serve the domestic market. The purpose of these investments is expressed as the firm's

production of the same goods or services in different countries. This type of FDI is affected by the superiority of proximity to consumers, transportation costs, and cultural differences (Moritz, & Schäffler. 2019).

There are many barriers to international marketing. In the face of these obstacles and especially when transfer costs are high, horizontal investments are put into effect. Here, if the investing foreign persons or organizations cannot transfer the products they produce to the local country market or if they are insufficient for competition, they make FDI to the country to offer their goods for sale in the market of this country (Demirel, 2006).

2.7.3.3. Holding Investments

Holding investments are defined as investments made in different countries, in various fields, and by bringing together more than one extra firm. When MNCs establish or acquire a manufacturing facility in a country in a field other than their production, they are said to make FDI in holding investments (group of firms). This type of investment is based on commodity diversification. This type of investment aims to minimize the level of risk. The way to reduce risk in holding investments is since each firm produces independent and multiple products. A second way to reduce risk is to spread production units across different countries. In conglomerate investments, a fall in demand for one good is compensated by an increase in demand for another, and a fall in demand in one region is compensated by an increase in another (Ayhan, 2011).

2.7.3.4. According to the Purposes that Motivate Multinational Firms

According to the objectives that motivate multinational firms, FDIs are divided into four categories: natural resource-seeking, market-seeking, efficiency-seeking, and strategic asset-seeking foreign investments.

2.7.3.5. Foreign Direct Investment Seeking Natural Resources

Natural resource-seeking FDIs emerge due to the concentration of natural resources in some geographical regions. Because if the raw material is difficult to obtain in the country where the firm is located, instead of getting real help at a high cost, the ESF can access the resource at a low cost by investing in the country where this resource is located. In this type of investment, the MNC usually originates from a developed country, and a large part of the production is exported to the country where the MNC is located. The main objective of this firm seeking natural resources (raw materials, minerals, mines, agricultural products) is to reduce production costs. The firms that make this investment are raw material processors or giant corporations in the manufacturing industry that have completed their development or are in EMEs. Another type of investor is an investor seeking cheap unskilled labor. Conversely, these investors generally consist of firms operating in the production and service sectors in developed countries where labor costs are high (Ayhan, 2011).

2.7.3.6. Market Seeking FDI

In the market-seeking type of FDI, international firms may search for new markets due to the saturation of the markets in their own countries and the competitive advantage of their prices compared to the costs of the countries they export to. In addition, international firms may also seek new markets due to constraints in the markets they have already entered. Other reasons for seeking new markets are that new markets are needed to reduce the costs incurred by being close to the buyers and to make changes in the goods according to the cultural needs of the countries to be exported. The need for international firms to gain a foothold in markets where rival firms constitute the majority is also counted among these reasons (Polat, 2018).

2.7.3.7. Event Seeking FDI

Efficiency-seeking FDIs are defined as FDIs in which MFIs shift all or a specific part of the production to segments where the labor factor is available at affordable prices to increase the cost-effectiveness of production. Achieving cost superiority explains the situation of both fully developed and EME MNCs. In

efficiency-seeking FDI, MNCs aim to access many markets with a small number of manufacturing units by taking advantage of different factor endowments, cultural differences, economic structures, institutional linkages and needs available across regions. These firms generally locate their capital, technology, and knowledge-intensive value-adding activities in developed countries, while their labor and natural resource-intensive activities are in EMEs. An example of efficiency-seeking FDI is the relocation of Nike sneaker manufacturing to Asian countries to benefit from cheap labor (Açıkalın, 2007).

2.7.3.8. Strategic Asset Seeking FDI

Strategic investments are defined as investments made to take advantage of the resources of other countries to gain a competitive advantage. This type of investment aims to take full advantage of the advantages of holding market control. The limited property rights of the foreign investor's home country, which adds to the capital stock, are essential in strategic investments (Mahmud & Sirin, 2018).

In strategic asset-seeking FDI, the foreign firm seeks to enhance its long-term competitiveness through different means. Competitiveness allows the firm to dominate the host country's market and prevent the entry of rival firms. Strategic asset-seeking FDI generally improves the competitive advantage of the acquired firm. However, the economic growth realized through this type of investment is limited because it does not contribute to creating workspace (Şirin, 2019).

2.7.4. Other Foreign Direct Investment

Other types of FDI include reinvested earnings and transfer pricing.

2.7.4.1. Reinvested Earnings

Reinvested earnings are defined as the undistributed share of the income generated by FDI in the form of reinvested dividends. Reinvestment of earnings is based on reasons such as limitations on taking the earnings out of the domestic

country and the desire to expand the volume of investment or to invest in new fields of activity (Kosztowniak. 2021).

2.7.4.2. Transfer Pricing

Transfer pricing refers to the exchange of services, goods, and technology between branches to maximize the profits of firms with departments in more than one country. Firms should be able to set prices as they wish during these exchanges. This enables firms to collect funds in the country of their choice, to be minimally affected by tariffs and quotas, and to pay income taxes in the country with the lowest income tax (Cooper & Nguyen,. 2019).

2.8. Positive and Negative Effects of Foreign Direct Investments on National Economies

While FDIs have many positive effects on the host country's economy at the micro and macro levels, they can also have some negative effects. Therefore, FDIs, like other economic activities, have alternative costs. If the contribution of FDI to the economy in the host country is more significant than its alternative cost, then we can talk about a positive effect. Otherwise, there is a negative effect (Yılmaz, 2008).

The quality and quantity of FDI is one of the critical factors determining countries' economic development levels. The direct relationship between economic development and the amount of FDI is an accepted fact both theoretically and due to many countries' experiences. FDIs, which are used as a source of financing, especially by developing countries in the development process, affect many macroeconomic variables and impact economic indicators such as the balance of payments and national income. In addition, it reflects the performance of countries when compared economically (Aytekin, 2019).

2.8.1. Positive Impacts of FDI

FDIs contribute positively to host country economies through resource transfer, knowledge, and technology transfer, as well as macro variables such as

capital accumulation, employment, balance of payments, prices, market competition, and macroeconomic indicators.

2.8.1.1. Impact on Capital Accumulation

Generally, countries face the problem of insufficient domestic savings and capital in their development processes. Therefore, it is possible to overcome this problem with the inflow of foreign investments. For this reason, it is of great importance for FDIs to contribute to developing the host country's economy as a resource. In addition, FDIs reduce unemployment by creating new jobs in the host country and providing external advantages to other related organizations and sectors (Aytekin, 2019).

Developing countries need capital accumulation to increase their investments to increase their welfare and income levels. Therefore, it is challenging for them to achieve their growth and development goals with their existing resources. For this reason, the capital accumulation provided by foreign sources to EMEs through FDIs plays an essential role for the host countries (Rani, & Kumar. 2019).

2.8.1.2. Impact on Employment

A second effect of FDI on the host country's economy is the increase in the level of employment because of increasing the level of national income and increasing the investment power of the country by contributing to capital accumulation. It leads to direct effects such as foreign investors' acquisition of a company in the host country, the takeover of domestic companies, or the realization of new economic activities that will create new production and employment opportunities by foreign investors (Aktan & Vural, 2006).

As a result of the creation of new business areas when FDIs enter the host country, they provide more labor employment and opportunities for employees to improve themselves and increase their experience in different working and technological environments (Özdemir, 2020).

2.8.1.3. Impact on Balance of Payments

When developing countries allow FDI inflows, the most crucial consideration is the contribution to increasing exports, which is an opportunity to create a solution to the balance of payments and foreign exchange bottlenecks. FDIs can contribute to the exports of the host country in various ways. Multinational Corporations (MNCs), the most crucial channel of FDI, have the advantage of lower export costs than local firms. FDIs bring foreign exchange to the host country through acquisitions, mergers, or new investments. The inflow of foreign exchange increases the host country's exports and contributes significantly to improving the balance of payments. At the same time, the impact of FDI on the balance of payments varies according to the type of investment. Thus, an FDI project for processing raw materials in the host country, including those in the agricultural sector, generally positively impacts the balance of payments (Çalık, & Akpınar, 2019).

2.8.1.4. Impacts on Technology

Most of the Research and Development (R&D) activities in the world are carried out by international companies that carry out FDI. As a result of these activities, advanced technologies are also used in production. Therefore, host countries benefit from these technologies through FDIs, thanks to the positive external advantages they gain without incurring any R&D activity costs. In terms of developing countries' access to technological developments that emerge because of R&D activities that require significant expenditures, it is generally possible to transfer them at a certain level through FDIs, not physically like other commodities. In addition, it is an essential advantage for the economies of developing countries by ensuring that the human capital to be used in the production of the technology in question is formed through "learning by doing" (Jahanger, & Balsalobre-Lorente, 2022).

If the technological power of the investee country is high, for example, if it has many skilled labors force, the technology transfer will also be high. This is because as the technological power of the recipient country increases, there will be a decrease in the costs of technology transfer. It has been observed that a reduction in the prices of

technology transfer leads to an increase in R&D studies and activities of domestic firms, allowing them to produce their domestic technologies (Branstetter, 2006).

2.8.1.5. Effects on Prices

In a country, if the product produced by FDI is also made in the host country, then the price of that product will fall as the total amount of production by domestic and foreign investments will increase. In addition, competition between domestic and foreign firms has been shown to lead to price reductions and quality improvements in consumer goods and services. Depending on the type of FDI, its effects on prices in the host country are reflected differently. Foreign investment in raw material procurement and processing will not change as the price of the raw material is usually determined on the international market. For the cost of the raw material to change because of FDI inflows, there would need to be a significant increase in the supply of the raw material in the international market. A company that wants to realize a part of its production activity abroad through FDI to maintain its market share in foreign markets may decrease the domestic price of its service or training. Because the primary purpose of such investments is to minimize costs and gain competitive power by taking advantage of low prices and thus maintaining market share, the price of goods and services produced in the domestic market may decrease with increasing competition. On the other hand, if a foreign firm has increased the number of producers in the relevant sector in the destination country or has increased the supply of domestic goods and services without causing monopolization and withdrawal of firms operating in the host country from the market, this may lead to a decrease in prices in the host country market due to increased competition (Kastratović, 2020).

2.8.1.6. Effects on Market Competition

International trade in goods is subject to quantity restrictions within the framework of specific rules. Therefore, FDIs are essential for national competition in the host country. Because quantity restrictions in trade lead to the emergence of national monopoly and oligopoly market structures. As a result of the liberalization of trade in goods through FDIs and the formation of a trade environment without quantity

restrictions, the number of firms in the national market increases, and a more competitive market structure is formed (Kırankabeş, 2006).

FDIs stimulate the economy of the host country by increasing domestic competition. It prevents the monopolization of domestic firms and leads to increased domestic production and lower prices. On the other hand, if there are natural monopolies in the sector where FDI enter, they can eliminate the monopoly position when they enter the market since MNCs have advanced technology, superior technical facilities in sales and marketing, or are more extensive than other firms in the market in terms of capital. Although it is generally accepted that FDIs increase competition and productivity when domestic companies operating in the host country are strong enough to compete with foreign companies, in some cases, the presence of MNEs may push weaker companies that are not strong enough to compete out of the market and result in a decrease in competition (Kokko, 2006).

2.8.1.7. Impact on Wages

The relationship between FDI and wages can be explained from two different perspectives. One is related to the functioning of national labor markets. The other deals with how FDI inflows affect the labor market in terms of firm size, industry, capital accumulation, R&D level, and the quality of other firms (Tunca, 2005).

To summarize the effects of FDI on wages.

- The FDI firm pays high wages to its workers,
- Spillover effects of high salaries paid by FDI firms to domestic firms,
- The higher wages paid by the FDI firm to its own and domestic firm workers, and the spillovers to the entire market trigger competition in the local labor market, resulting in an upward movement in the general level of wages, to measure the impact of FDI on wages, all these effects need to be analyzed. Therefore, to fully understand the impact of FDI on wages in an economy, it is necessary to explore foreign investment inflows and the general level of wages from a macroeconomic perspective or to investigate them with econometric methods because there are other variables other than FDI that affect the general level of wages (Kara, 2019).

2.8.1.8. Effects on Economic Growth and Development

FDIs have a significant impact on the growth indicators of mainly developing countries. These foreign investments positively affect growth by increasing physical capital in host countries and contribute to development by increasing productivity (Durgan, 2016).

Many researchers have conducted studies and advocated different views to determine the impact of FDI on economic growth. In this context, Brewer and Young (1997) argue that a high level of FDI inflow does not affect economic growth. This is because the share of FDI in growth also depends on the degree of substitution between domestic investment and the level of human capital and trade. Van Huffel (2001) argued that the impact of FDI varies across countries and is, therefore, difficult to assess. Borensztein, De Gregorio, and Lee (1998) argue that FDI contributes to domestic market competition and knowledge accumulation. This implies the development of human capital in the host country. Moreover, the ability of FDI to stimulate growth in the host country depends on the level of technological sophistication of the MNEs. Therefore, human capital's advanced experience and skills play an essential role in determining the relationship between FDI and economic growth (Allioua, 2019).

FDIs are the most important source of external financing for EMEs to overcome the lack of resources for growth and development. In addition, they send a positive signal to other investors about the host country's economy. This, in turn, encourages other investors and leads to an increase in total investments. An international study covering the period between 1970 and 1989 confirmed the effect's existence by concluding that domestic investments increased by 0.5%-1.3% for a 1% increase in FDI (Borensztein, De Gregorio, & Lee, 1998).

To sustain economic development and growth, host countries can also benefit from the indirect benefits resulting from the resources provided by the realization of FDI, namely, the transfer of new technologies to the host country led to foreign investments and the increase in the quality of labor due to the MNCs operating in technology-intensive fields, increases competitiveness and provides positive external benefits in terms of increased exports and growth. Host countries benefit from these external benefits, leading to productivity growth. Moreover, the positive impact of FDI

on productivity and economic growth has been confirmed by numerous studies (Negash, & Wang, 2020).

2.9. Foreign Direct Investment and Economic Development

FDI studies on country-level economic development assume excessively high homogeneity. EU member states, OECD nations, and emerging and developed countries have certain traits, yet they are very different. Thus, sectoral analysis of each nation is needed to determine the true impact of FDI on economic growth and which industry has the most impact. India may lead in services, while Turkey may lead in manufacturing. Thus, single-country studies may require additional study focus.

Basu et al. (2003) investigated long-term and short-term FDI-GDP correlations in 23 developing nations over 18 years using Panel Cointegration, Vector Error Correction (VEC), and Granger Causality. Despite various empirical research on FDI's impact on growth, they say that no meaningful study has examined the two-way relationship between GDP and FDI. In particular, they argue that the two-way correlation between FDI and GDP stems from the fact that increasing FDI flow enhances host nation growth, while good growth rate prospects attract FDI (Basu, et al,. 2003). They observed a favourable long-term link between FDI and GDP in open and closed economies. However, they found that in closed economies, GDP growth drives FDI in the long run. Open economies have bidirectional rationale.

Khan. and Khan, (2011) have investigated Pakistani sectoral economic development and FDI. They tested 23 industries from 1981 to 2008 using panel cointegration and granger causality. They also compared dynamic OLS techniques. Lack of sectoral data made their analyses most challenging.

FDI positively affects GDP over time. They found that FDI inflows are limited despite great circumstances. The country's FDI was underutilised. According to Chakraborty and Nunnenkamp (2008), the kind of FDI and its structural components affect economic growth, hence the consensus positive effect of FDI on GDP with strong homogeneity assumption on the country level may be inaccurate. Many analyses assume country-level homogeneity of FDI diversity and structure. Their sectoral-level FDI-growth study is one of the few for a single country.

FDI and GDP have a unidirectional long-term connection. The short-run null of "no short-run causality" between FDI and GDP and vice versa is rejected in favour of short-run solid causality.

Mathiyazhagan, M.K. (2005) conducted an India-specific sectoral research. He gathered nine sector data between 1990 and 2000. Using panel Cointegration, he examined the long-term link between Foreign Direct Investment (FDI), Gross Output (GO), Export (EX), and Labour Productivity (LPR).

His analytic models include the Ordinary Least Squares model (FMOLS), the Dynamic Ordinary Least Squares model (DOLS), and the Panel group model (FMOLS). In order to investigate the individual influence that sectors have on Foreign Direct Investment Inflow (FDII), he used a variety of OLS methodologies. After that, he conducts an investigation into the long-term relationships by using the panel cointegration approach. According to the outcome of the FMOLS analysis, FDI and GO appear to be favourably cointegrated with one another. On the other hand, his findings point to a detrimental connection between foreign direct investment and exports. The empirical research found that foreign direct investment (FDI) led to an improvement in labour productivity in the food processing and industrial machinery sectors. On the other hand, when OLS (DOLS) is utilised, it is discovered that foreign direct investment (FDI) has a positive association with other control variables such as export, labour productivity, and gross output (GO). Panel Cointegration was performed, and the results showed that the link between FDI and the explanatory variables GO, EX, and LPR was only weak.

Sen (2011) has looked at yet another facet of country-specific sectoral studies being conducted in India. He examined the expansion of the service industry in India by collecting data spanning the years 1970 and 2008 on important industries and making 114 observations. He has utilised time series data to develop models with the dependent variable being GDP and the explanatory variables being FDI, the service sector (SER), the agricultural sector (AGRI), and the industrial sector (IND). After that, he built other models in which foreign direct investment (FDI) and the service sector (SER) are included as dependent variables. Regarding the model in which the service sector (SER) is modelled as a dependent variable, the findings indicate that the control variable foreign direct investment (FDI) in the service sector in India has been

considerable and has a beneficial influence on economic growth. This is the case even if SER is modelled as a dependent variable.

As Sen (2011) and Clark (1940), Kuznets (1957), and Cheney (1960), all of which are referenced in the author's research, show that service-led expansion is a common phenomena in terms of the theory of economic growth. The data that is available implies that development driven by services was related with the tertiary growth phase; however, in India, the manufacturing and service sectors are separate (Sen, C. 2011). According to Sen (2011) once more, the most significant disadvantage originates from Gordon and Gupta (2003), who state that the rise of the service sector has mainly failed to provide new employment opportunities and has not been able to successfully raise the employment rate. Nair-Reichert, and Weinhold (2001) have gone one step further by making an unreasonable assumption about the level of uniformity. Over the course of 25 years, they have given consideration to twenty-four different developing nations. They investigate the Granger causality between foreign direct investment and GDP growth as well as the contemporaneous correlation between FDI and GDP expansion. They have presented a novel approach to panel data by using a method known as MFR, which stands for mixed, fixed, and random effects. They use this strategy in an effort to capture the variety of the causal link that exists between foreign direct investment and economic expansion. Their research is distinct from that of conventional panel estimators in that it demonstrates Mixed, Fixed, and Random (MFR) effects, which produce quite distinct outcomes. Their investigation provides conclusive proof that the 24 emerging nations are highly diverse from one another. In the classic panel data calculations, assumptions of homogeneity were enforced so that the size of the influence of foreign direct investment (FDI) on economic development could be measured. They make it very evident that mistakenly attributing such a powerful assumption to the data may result in skewed estimations and erroneous policy consequences (Weinhold, et al. 2001).

Ma (2009) conducted another country-level FDI-growth research. This study used 1985–2008 data. FDI-led economic expansion in China has not increased productivity. Sjoholm (2008) found similar outcomes in sector-level analyses.

Weinhold, et al. (2001) stressed single-country investigations due to national heterogeneity. Single-country FDI-growth studies are increasing, but not enough. This study will analyse one nation at the sectoral level to contribute to this case.

Tang et al. (2008) use the VAR model to examine the relationship between FDI, domestic investment, and economic growth in China. They find that FDI stimulates local investment, which boosts economic growth. Alfaro et al. (2010) show that developed economies thrive faster when FDI inflows rise. FDI transfers technology, money, labour skills, and knowledge to emerging countries, according to literature. FDI helps developing nations modernise and increase production (Batten & Vo, 2009). Batten and Vo (2009) found that foreign direct investment boosts income growth using panel data from 79 countries from 1980 to 2003. Liu et al. (2010) use neoclassical and endogenous growth models to study factor accumulation and economic development. The literature's neoclassical growth models consider FDI a production component.

However, FDI boosts domestic investment. It improves growth efficiency and continuity. Endogenous growth models also suggest that technology transfer from FDI boosts long-term growth. FDI inflows also depend on political and economic stability, investor rights, tax policies, trade obstacles, and financial independence. Thus, country-specific FDI drivers attract FDI and absorb new technology, affecting the FDI-growth link (De Mello Jr., 1997). Using 1970–1999 data from 84 countries, Li and Liu (2005) support FDI-driven income. Li and Liu (2005) also show that FDI indirectly affects growth. Human capital and technology from FDI inflows boost development.

Tang et al. (2008) FDI encourages foreign investment in export industries, which boosts exports and the economy. According to Tang et al. (2008), FDI complements local investments and boosts China's economy. Hermes and Lensink (2003) use 67 economies to show that FDI directly affects income. Some research suggest that FDI doesn't boost economic growth.

Mah (2010) analyses yearly data on FDI inflows and economic growth rates from 1983 to 2001 to determine if FDI caused growth. China's FDI policies attract too many international investors, yet FDI doesn't boost economic growth. Mah (2010) believes that China does not need to control its policies to attract FDI because economic growth increases them. Some research examine the presence and

characteristics of the link, while others focus on causality. These studies examine different factors and have inconsistent findings. Roy and van der Berg (2006) attribute the inconsistent results to insufficient data. We lack data for a reliable econometric study since multinational corporations have been investing abroad for nearly two decades. Studies use different econometric methods. In a VAR model involving 80 nations spanning 1971-1995, Choe (2003) fails to find a correlation between FDI and economic development.

Most research show a favourable correlation. Both causalities are reasonable. It is useful to consider that FDI causes development since it boosts growth. However, if the government is overgrowing, foreign investors will want a piece of the production. Chenery and Strout (1966) and Krueger (1987) think FDI boosts economic growth. Bende-Nabende et al. (2003) found both negative and positive long-term connections between FDI and growth in East Asian nations using Johansen cointegration and vector error correction.

They found strong spillover effects in developing nations. Shan (2002) examined the relationship between FDI and key Chinese economic factors using quarterly data from 1986-1:1998-4. FDI and output are two-way causal. Borensztein et al. (1998) pioneered this area. Using apparently unrelated regression (SUR) estimates using panel data, they examined the impact of FDI on economic development in 69 developing nations. Their major result is that FDI's impact on receiving nation growth depends on the home country's human capital.

Besides, de Mello (1999) examines how FDI affects production and total factor productivity in OECD and non-OECD countries using time series and panel data. He finds that growth depends on the complementarity and substitution of FDI and local investment. Balasubramanyam et al. (1996) support Bhagwati's premise that export-promoting or export-substituting strategies affect FDI volumes. Chowdury and Mavrotas (2006) determine the direction of causation between FDI and growth for Chile, Malaysia, and Thailand from 1969 to 2000. In Chile, GDP causes FDI, while Malaysia and Thailand show considerable bi-directional correlation.

Roy and van den Berg (2006) FDI-receive the US. A simultaneous equation system (SEM) shows that FDI and growth are bidirectional. Hansen and Rand (2005) utilise Granger causality to show that FDI causes growth in 31 developing nations over

31 years. Economic development encourages FDI, according to Choe (2003), Chakraborty (2004), and Blomstrom et al. (1996). Choe, using data on 80 nations from 1971–95, finds a two-way causality between FDI and development, with growth driving FDI. Bengoa et al. (2003) find from panel data for 18 Latin American nations from 1970-1999 that FDI positively correlates with host country economic development. However, dynamic panel data estimation by Carkovic and Levine (2005) does not support "FDI promotes growth." Durham (2004) finds no correlation between FDI and economic development in 80 countries during 1979–98. He contends that host nations' "absorptive capability" affects FDI.

FDI brings cash, know-how, technology, and industrial organisation expertise. Balasubramanyam et al. (1996) and de Mello (1999) explain. According to de Mello (1997), FDI boosts growth in two ways: The degree of complementarity and substitution between FDI and domestic investment determines technological upgrading, knowledge transfers, and growth-enhancing FDI. Kalyoncu and Ozturk (2007) FDI's influence on Turkey and Pakistan from 1975 to 2004. The EngleGranger cointegration and Granger causality tests show bidirectional causation between two variables in Turkey. Yilmazel (2010) used quarterly data from 1991Q1 to 2007Q3 to study FDI, exports, imports, and growth in Turkish. She concludes that FDI does not cause growth. Katircioglu (2009) also utilises the limits test for cointegration to determine the long-run equilibrium relationship between FDI and growth in Turkey where FDI is the dependent variable. Mucuk and Demirsel (2009) evaluate the long-term link between FDI and development, oddly arguing that FDI may hinder progress.

2.10. Theories on Foreign Capital Investments

These theories put forward views on the effects of foreign capital investments on the host country's economy and especially on foreign trade in the 1970s. In addition, the increase in the number of MNCs with globalization has led to increased technology, labor, and international capital mobility. Therefore, theories on the effects of these factors on variables have been developed (Dönmez, 2010). These theories developed on foreign capital investments are Product Cycles Theory, Oligopolistic Response Theory, Internalization Theory, and Eclectic OLI Paradigm (ŞAHİN, 2018).

2.10.1. Theory of Product Circuits

Developed in 1966 by Reymond Vernon to explain international trade, this theory explained the expansion cycle in the post-World War II period, as existing theories of international trade were insufficient to explain the changing trade pattern due to the increase in the number of MNCs in the 1960s. Popularly referred to as the "Product Life Cycle Theory," it provides information on how factors such as the availability of more significant and cheaper capital, superior management, the discovery of new methods, product differentiation, etc. interact over time to determine production (Nayak & Choudhury, 2014).

Products, like people, have life cycles. A product starts with an idea and, within the confines of modern commerce, is unlikely to go any further than research and development (R&D) until it is determined to be viable and potentially profitable. At that point, the product is manufactured, marketed, and launched. According to Vernon, product cycles can be analyzed in four generally accepted stages: entry, growth, maturity, and decline (Kopp, 2020).

In sum, introducing a new product to the market leads first to foreign trade and then to foreign direct investment. Therefore, Vernon's Product Cycle Theory is essential for international business and foreign investments (Göver, 2005).

2.10.1.1. Oligopolistic Response Theory

This theory, proposed by Frederick T. Knickerbocker in 1973, argues that Foreign Direct Investment (FDI) in developed countries results from an oligopolistic reaction. This theory tried to explain the FDI of MNCs in the industrial sector in the US with the oligopolistic response in which the interdependence of firms is in question. Accordingly, a firm's investments in another country are determined by the behavior of competing firms (Choi, & Ishikawa, 2020).

Knickerbocker argued that there are two essential reasons investors choose a country to establish a new plant. The first is to gain greater access to the host country's market; the second is to benefit from the relatively cheap and abundant resources of the host country. Another reason is the imitative behavior of firms. It argues that firms in a sector tend to follow each other's location decisions, especially in oligopolistic

market conditions. The idea is that firms that are unsure of the cost of production in the country they are already exporting run the risk of lower prices as a rival firm establishes a production facility in the host country instead of shipping. In this case, the firm can avoid being underpriced by imitating its competitor's direct investment (Haudi, & Cahyono, 2020)

According to Knickerbocker, market size is one factor affecting US firms' direct investment decisions. While the market size is essential for the first investor in terms of achieving economies of scale, it is a factor that other firms that follow these pioneering firms do not consider. In addition, the growth rate of the existing market and political and economic stability plays a significant role in determining the intensity of the oligopolistic response (Uzun, 2010).

2.10.1.2. Internalization Theory

Buckley and Casson (1976) explained FDI by emphasizing intermediate inputs and technology. They shifted the focus of international investment theory from country-specific to industry-level and firm-level determinants of FDI. Coase (1937) provided an economic explanation for why individuals choose to form partnerships, corporations, and other business entities rather than trade bilaterally through contracts in markets. He noted that there are many transaction costs of using a call. Therefore, a firm would engage in in-house production to avoid these costs. Buckley and Casson analyzed MNCs within this broad-based framework developed by Coase. This theory has come to be known as the internalization theory because it emphasizes this fact about the creation of multinational corporations. This theory is based on three basic assumptions (da Silva Lopes, Casson, & Jones, 2019).

- Firms maximize their profits in an imperfectly competitive market
- In the case of imperfectly competitive markets for intermediate goods, it is incentivizing to create internal needs.
- Internalization of markets around the world leads to multinational corporations.

A firm engaged in research and development may develop a new technology or method. Transferring the technology or selling the inputs to other firms may be difficult because other firms may find the transaction costs too high. In this situation, a

firm may choose backward and forward integration, i.e., internalization using output. 50% of one subsidiary's work can be used as an input in the production of another, or technology developed by one subsidiary can be used in others. Internalization involving operations in different countries amounts to FDI (Bukley & Casson, 2009).

Based on Coase's argument, Bukley and Casson reach the following conclusions about the internalization theory.

- Firms need not internationalize gradually; they can be born global. Firms are created because of an attempt to take advantage of profit opportunities when entrepreneurs make them. Small ideas will lead to the creation of only local firms, while big ideas will lead to the creation of international firms. This is because the entrepreneur's knowledge has potential global application.
- Internalization economies are not intrinsic to licensing decisions, nor indeed to the firm's internationalization. But they provide the primary rationale for the firm's formation and are of strategic importance throughout its life.
- The advantages used by multinational companies are opportunities created by themselves or externally. It starts with the idea and thinking of the first founding entrepreneur and is refined through continuous knowledge development. This process of knowledge development involves constant feedback through the circulation of knowledge between production, marketing, and R&D. In this context, R&D represents any organized activity that transforms ideas and experience into incremental innovations in product variety design, display, or marketing (Buthe & Milner, 2008).

2.10.1.3. Eclectic Theory (OLI Paradigm)

Eclectic theory can be defined as a combination of transaction costs theory and strategic behavior theory. Hill, Hwang, and Kim (1990) developed a framework by combining the debates and different ideas about the theory. Strategic, environmental and transaction variables determine a firm's decision to invest in a foreign country. It is necessary to consider all variables in selecting the most appropriate decision to maximize MNCs' long-term gains (Kurtaran, 2007).

Hymer (1976), founder of the MNE theory, argued that the costs of firms that produce in many different countries are higher than those of firms that make in a single country. Therefore such firms should have superior economies of scale and technological capabilities than other competing firms to continue their production under a high-cost burden. However, dunning developed Hymer's thesis in a study he conducted in 1977. Accordingly, as the first researcher to better explain the conditions for MNEs to engage in FDI, he is the actual developer of the theory (Göver, 2005).

Dunning argued that a firm can engage in FDI if the following three conditions are met:

- They should have ownership advantages over other firms (O),
- There are some location advantages to using a firm's proprietary benefits in a foreign location (L),
- Instead of using the market to transfer these advantages to foreign firms, it is better to internalize them (I).

Ownership advantages are firm-specific advantages. These advantages, which can be enjoyed over domestic and foreign competitors, are in the form of both tangible and intangible assets. These ownership advantages reduce a firm's production costs and allow it to compete with firms in a foreign country. Location advantages of different countries play an important role in determining which country should host the operations of multinational companies. A substantial gain by avoiding market failures such as uncertainty, audit problems, the undesirability of providing complete information to potential buyers, etc. Internalization gains make transacting within the firm more profitable than depending on foreign markets (Amendolagine & Caniglio, 2012).

2.10.1.4. Foreign Direct Investment Theories

The occurrence of FDI, in which EMEs and some firms aim to open to the outside world, which tends to transform their production levels into a more profitable situation, and gain mutual benefits, is based on several theories. These theories of FDI hypotheses do not conflict with each other but form a unified whole. It is necessary to explain FDI not only with a few approaches but with all of them. These theories of

FDI targets also shape the shaping of trade. The causes and consequences that lead firms to FDI are explained through related theories (Mılık, 2019).

After the Second World War, the number of firms and their scope of action grew as more FDI was undertaken. These advances have necessitated research analyzing the reasons for FDI in foreign trade and manufacturing. Accordingly, theories have been developed for the subject in question. Research on FDI has generally converged on the same point.

These common points are monopolization and imperfect competition (Bayar, 2013).

2.11. Modern Theories

In addition to the oligopolistic market structure, globalization, and its impact, which is the result of all countries and firms becoming one with each other, have created modern theories.

2.11.1. Horizontal Integration Investments

Horizontal integration investment refers to investment where firms produce the same good in the markets of more than one country. These investments show how foreign investors should pursue a path to earn more profits. Firms face the choice between exports and FDI, deciding between the cost of production and the cost of market proximity, transportation, and taxation. Horizontal integration investments involve the costs of creating a greenfield firm in a foreign country versus the costs of exporting and the decisions made to compare the two situations (Benghoul & Aydin, 2019). If the cost incurred by the firm decreases with greenfield investments, the firm favors FDI. The main priority in horizontal investments is to be close to the market. These investments have benefits for firms, such as freedom from the costs of trade, mobility of the domestic market, ease of adaptation to differentiating market conditions, responding to customer demands, and an increase in overall sales by producing goods that the country of investment cannot make (Yapraklı, 2010).

2.11.2. Vertical Integration Investments

Vertical integration investment refers to the realization of stages of the manufacturing process in different countries. The orientation of MFIs towards steep integration investment is mainly due to the different factor prices across countries. Since the vertical FDI type considers price differences, it carries out labor-intensive manufacturing processes in countries where labor is cheap and R&D and management activities in developed countries with skilled labor (Baskoro & Otsuji, 2019).

2.11.3. Knowledge Capital Model

The knowledge capital model encompasses all intangible assets of the competitively superior firm, such as its current level of technology, management, and planning capabilities. The monopolistic advantages of knowledge superiority arise from the control of knowledge capital used in product differentiation. There is a weak relationship between the marginal cost and profit of using knowledge capital, as in the case of public goods. However, the investor firm with information superiority could create physically differentiated products through its technological or psychologically differentiated products through its marketing potential. In this way, firms gain control over the price and sales of goods and earn economic rents from their knowledge assets. The firm that owns the product in question becomes the manager of the knowledge that it transfers to the foreign country at no or low cost. Monopolistic advantages explain horizontal foreign investments in which command is widely used (Demirtaş, 2005).

3. METHODOLOGY

3.1. Introduction

This part presents the crucial points of research, study design, population and sampling method, measurement of variables, the unit of analysis, measurements, and data analysis methods.

3.2. Study Design

This study uses a quantitative method, with secondary data for FDI inflows, FDI outflows and economic growth, and SWOT analysis.

A quantitative method for this study is appropriate as it involves analyzing numerical data to examine the relationship between FDI inflows, FDI outflows, and economic growth. Secondary data can be a valuable source of information for this type of research, as it allows us to analyze large datasets that others have already collected. We must identify secondary data sources on FDI inflows, FDI outflows, and economic growth to conduct the study. This might include data from international organizations such as the World Bank, the International Monetary Fund, or the United Nations, as well as national statistical agencies or other government departments.

Once you have collected the data, you can use the statistical software EViews 10 to analyze the relationship between FDI inflows, FDI outflows, and economic growth. This might involve estimating regression models, performing hypothesis tests, and analyzing the statistical significance of the estimated coefficients. In addition to examining the relationship between FDI inflows, FDI outflows, and economic growth, We also mention conducting a SWOT analysis. This qualitative method involves identifying and analyzing the strengths, weaknesses, opportunities, and threats. To perform a SWOT analysis, we must identify relevant factors affecting the relationship between FDI inflows, FDI outflows, and economic growth, including political stability, infrastructure, labor market conditions, and regulatory environment. We can use secondary data sources such as government reports, industry publications, and news articles to gather information on these factors.

3.3. Population and Sample

This study used FDI inflows, FDI outflows, and economic growth for eleven years from 2011 to 2021.

3.4. Measurement of Variables

The measure of FDI inflows and outflows will be collected as disclosed in World Bank 2022 and economic growth will be measured based on the Gross Domestic Product (GDP) available on the World Bank website 2022.

Using the World Bank as a source for measuring FDI inflows, FDI outflows, and economic growth is a common approach in economics. The World Bank is a reputable international organization that collects and disseminates financial data globally. FDI inflows and FDI outflows are typically measured in US dollars and represent the amount of investment that a foreign entity has made in a particular country (in the case of FDI inflows) or the amount of investment that a domestic entity has made in foreign countries (in the case of FDI outflows). These measures are essential for understanding the flow of capital between nations and the potential impact on economic growth. Gross Domestic Product (GDP) is a widely used measure of economic growth and is typically calculated as the total value of goods and services produced within a country during a given period (usually a year). GDP can be measured in nominal terms (based on current prices) or real terms (adjusted for inflation) and expressed on a per capita basis to adjust for differences in population size.

3.5. Units of Analysis

In this study, the data collected from World Bank for FDI inflows and FDI outflows with economic growth. It also adds a SWOT analysis based on discussion to extract strengths, weaknesses, opportunities, and threats.

3.6. Data Analysis

The data analysis will be by EViews 10 to analyze the relationship between FDI inflows, FDI outflows, and economic growth.

3.7. Explain how SWOT analysis.

We used data and studies related to FDI inflows and FDI outflows and the economic growth of Turkey during the period between 2011 and 2021, and through SWOT analysis, we extracted from their strengths, weaknesses, opportunities, and threats

4. RESULTS AND FINDINGS

4.1. Introduction

This chapter is divided into two parts: first, a presentation of the psychometric properties of the measurement scales used in the study and a discussion of the Descriptive Statistics, Correlation, and R Square. Finally, the examination of the research hypotheses is discussed. Second, Discusses the SWOT analysis by explaining strengths, weaknesses, opportunities, and threats.

4.2. Descriptive Statistics

According to the descriptive statistics data, this table shows the statistical measures for three variables: FDI inflows, FDI outflows, and GDP. For FDI inflows, the mean value is 12961.45, which represents the average of all the values in the dataset. The minimum value is 7821.000, the smallest value in the dataset, while the maximum value is 18976.00, the most significant value in the dataset. The standard deviation, which measures how spread out the data is, is 2985.864. Similarly, the mean value for FDI outflows is 3806.818, representing the average of all the values in the dataset. The minimum value is 2331.000, the smallest value in the dataset, while the maximum value is 6682.000, which is the most significant value in the dataset. The standard deviation is 1271.702. Finally, for GDP, the mean value is 8.439182, representing the average of all the values in the dataset. The minimum value is 7.199000, the smallest value in the dataset, while the maximum value is 9.577000, the most significant value in the dataset. The standard deviation is 0.721152. These statistical measures help describe the distribution of the data and can be used to compare the different variables.

Table 11: Variable Descriptive Statistics.

	Mean	**Minimum**	**Maximum**	**Standard-D**
FDI inflows	12961.45	7821.000	18976.00	2985.864
FDI outflows	3806.818	2331.000	6682.000	1271.702
GDP	8.439182	7.199000	9.577000	0.721152

4.3. Correlation

There are standards used in Eviews to assess the Correlation validity. The square root of each average variance extracted (AVE) for each variable and the negative constructions should have a high correlation level. According to Fornell and Larcker (1981), the square root of each Variable, its AVE, must be compared to the constructions' correlations for all variables to manage discriminant validity.

Table 12: Correlation

	FDI inflows	**FDI outflows**	**GDP**
FDI inflows	1.000000		
FDI outflows	0.221253	1.000000	
GDP	0.527941	0.391489	1.000000

4.4. R Square

After analyzing the measurement model and ensuring it met all requirements, structural-model analysis was carried out. An associate examination of the determination coefficient (R^2) is completed. During this study, an endogenous two variable was found to have an R^2 value of 0.358054. Economic development suggests that foreign direct investment will explain 0.197568% of the variance in economic development. Hence, the current research greatly meets the quality.

Table 13: The Variance's Explanation.

Matrix	**R-Square**	**Adjusted R-squared**
Economic development	0.358054	0.197568

4.5. Hypothesis Testing

Table 20 shows the results connected to the hypothesis testing and discoveries that the hypothesis is supported. The outcome revealed that the FDI inflows and outflows were positively significant with the economic development of $p < 0.0000$, 6.345048. This outcome shows that FDI inflows and FDI outflows have a considerable impact on economic growth.

Table 14: Path Coefficients.

	Coefficient	Std. Error	t-Statistic	P Values	Accept or reject
Multiple FDI inflows- FDI outflows-> GDP	6.363030	1.002834	6.345048	0.0002	Accepted

4.6. Cointegration Test

The table shows the test results for different hypotheses on the number of cointegrating equations.

The null hypothesis (None) assumes no cointegrating equations; the alternative hypothesis is that there is at least one cointegrating equation. The test statistic for this hypothesis is the trace statistic, which is 38.81795. The critical value at the 0.05 significance level is 24.27596, which is exceeded by the test statistic. Therefore, the null hypothesis is rejected at the 0.05 level, and it is concluded that there is at least one cointegrating equation.

The following hypothesis (At most 1) assumes that there is at most one cointegrating equation. The test statistic for this hypothesis is the difference between the first and second eigenvalues, which is 0.621973. The critical value at the 0.05 significance level is 12.32090, which is not exceeded by the test statistic. Therefore, the null hypothesis cannot be rejected at the 0.05 level, and it is concluded that there is at most one cointegrating equation.

The final hypothesis (At most 2) assumes that there are at most two cointegrating equations. The test statistic for this hypothesis is the second eigenvalue, which is 0.024126. The critical value at the 0.05 significance level is 4.129906, which is not exceeded by the test statistic. Therefore, the null hypothesis cannot be rejected at the 0.05 level, and it is concluded that there are at most two cointegrating equations.

The conclusion of the test is that there is one cointegrating equation at the 0.05 level. The MacKinnon-Haug-Michelis (1999) p-values are provided as an additional measure of the significance of the test results.

Table 15: Johansen Cointegration Test

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.963698	38.81795	24.27596	0.0004
At most 1	0.621973	8.974898	12.32090	0.1705
At most 2	0.024126	0.219801	4.129906	0.6964
Trace test indicates 1 cointegrating eqn(s) at the 0.05 level				
*** denotes rejection of the hypothesis at the 0.05 level**				
****MacKinnon-Haug-Michelis (1999) p-values**				
Unrestricted Cointegration Rank Test (Maximum Eigenvalue)				

4.7. SWOT Analysis

4.7.1. Evaluating the Development of Foreign Direct Investment in Turkey With SWOT Analysis

STRENGTHS	WEAKNESSES
- Growing and diversified economy **- Favorable business environment for foreign investors** **- Increasing number of highly qualified professionals** **- Growing domestic market**	- High levels of bureaucracy and regulations - Limited access to financing for small and medium-sized enterprises - Dependence on foreign energy sources - Limited innovation and research and development activities
OPPORTUNITIES	THREATS
- Increasing demand for Turkish goods and services in foreign markets **- Growing interest in Turkey from investors in the Middle East and Asia** **- Favorable trade agreements with Europe and other countries** **- Growing interest in renewable energy sources**	- Political instability in the region - Economic downturns in Europe and other key trading partners - Increasing competition from other emerging economies - Dependence on imports for critical goods and services

- STRENGTHS

- Growing and diversified economy

The strength "growing and diversified economy" refers to Turkey's economy expanding and becoming more diverse throughout 2011-2021. This means there has been growth in multiple sectors of the economy, not just in one or two areas. This is a positive factor for business administration in Turkey because it creates opportunities for businesses to enter new markets and expand their operations.

A growing and diversified economy can also attract foreign investment, as investors are more likely to invest in countries with a stable and growing economy. This can lead to increased job creation, income growth, and higher living standards for the population.

- Favorable business environment for foreign investors

The strength "favorable business environment for foreign investors" refers to the conditions in Turkey conducive to foreign investment. This includes a stable political environment, a supportive legal and regulatory framework, a skilled labor force, and market access. A favorable business environment for foreign investors is crucial because it helps to attract foreign investment and promote economic growth. Foreign investment can bring new capital, technology, and expertise to Turkey, which can help to create new jobs, spur innovation, and boost productivity.

In recent years, Turkey has taken steps to improve its business environment for foreign investors by streamlining regulations, reducing bureaucracy, and offering incentives for investment. This has helped attract a growing number of foreign investors to Turkey, particularly in the manufacturing, tourism, and finance sectors.

- Increasing number of highly qualified professionals

The strength "increasing number of highly qualified professionals" refers to the growing pool of skilled and educated workers in Turkey. This is a positive factor for business administration in Turkey because it gives businesses access to a talented workforce that can help drive innovation, productivity, and growth. An increasing number of highly qualified professionals can also help to attract foreign investment to Turkey, as investors are more likely to invest in countries with a skilled and educated

workforce. This can help to create new job opportunities and promote economic growth.

In recent years, Turkey has made significant investments in education and training, which has helped to increase the number of highly qualified professionals in the country. This includes investments in primary and secondary education, as well as in higher education and vocational training programs. The strength of an increasing number of highly qualified professionals is a positive factor for business administration in Turkey, as it helps to create a more competitive and productive workforce that can drive economic growth and attract foreign investment.

- Growing domestic market

The strength "growing domestic market" refers to the increasing demand for goods and services within Turkey's borders. This is a positive factor for business administration in Turkey because it provides businesses with an expanding market for their products and services, which can help to drive sales and revenue growth. A growing domestic market can also attract foreign investment to Turkey, as investors are more likely to invest in countries with a large and growing consumer base. This can help to create new job opportunities and promote economic growth.

In recent years, Turkey has experienced a growing middle class, contributing to increased consumer spending and demand for goods and services. This has created opportunities for businesses in retail, consumer goods, and services. The strength of a growing domestic market is a positive factor for business administration in Turkey, as it provides businesses with an expanding demand for their products and services, which can help to drive sales and revenue growth and attract foreign investment

- WEAKNESSES

- High levels of bureaucracy and regulations

The weakness of "high levels of bureaucracy and regulations" refers to the excessive red tape, regulations, and administrative burdens businesses in Turkey may face. This can include long wait times for permits and licenses, complex tax rules, and other bureaucratic hurdles that can slow down business operations and increase costs.

High bureaucracy and regulations can be a significant barrier to business in Turkey, making it more difficult for companies to start up, operate efficiently, and

compete in the market. This can also discourage foreign investment, as investors may perceive Turkey as challenging to do business.

The weakness of high levels of bureaucracy and regulations is a significant challenge for businesses in Turkey, as it can increase costs, slow down operations, and discourage investment. Addressing this weakness will be necessary for promoting the country's business growth and economic development.

- Limited access to financing for small and medium-sized enterprises

The weakness of "limited access to financing for small and medium-sized enterprises" refers to the difficulty that smaller businesses in Turkey may face in securing financing to start or grow their operations. This can be due to various factors, including strict lending requirements, limited availability of credit, and a lack of collateral.

Limited access to financing for small and medium-sized enterprises can be a significant barrier to business in Turkey, as SMEs are a vital driver of economic growth and job creation. Without access to financing, SMEs may struggle to launch new products, expand their operations, or hire new employees.

In recent years, Turkey has implemented several initiatives to improve access to financing for SMEs, including by providing government-backed loans, offering tax incentives for investment, and promoting alternative financing options such as crowdfunding and venture capital. However, more work must be done to ensure that SMEs have access to the financing they need to thrive.

- Dependence on foreign energy sources

The weakness "dependence on foreign energy sources" refers to Turkey's reliance on imports of oil, gas, and other energy sources to meet its domestic energy needs. This dependence can make Turkey vulnerable to fluctuations in global energy prices, geopolitical tensions, and other external factors that can impact the supply and cost of energy. Dependence on foreign energy sources can be a significant challenge for business administration in Turkey, as it can increase the cost of doing business and reduce the competitiveness of Turkish companies. It can also limit the country's ability to invest in renewable energy sources and reduce its carbon footprint.

Turkey has taken steps to reduce its dependence on foreign energy sources by investing in renewable energy, such as solar and wind power. However, more work must be done to increase energy efficiency, reduce consumption, and promote domestic energy production.

- Limited innovation and research and development activities

The weakness of "limited innovation and research and development activities" refers to Turkey's relatively low investment and training in research and development (R&D) and innovation. This can include a lack of funding for R&D, limited collaboration between academia and industry, and a shortage of skilled workers in science and technology fields.

Limited innovation and research and development activities can be a significant barrier to business in Turkey, as it can limit the competitiveness of Turkish companies and hinder the country's ability to develop new products and services. It can also limit the country's ability to attract foreign investment in high-tech industries. Turkey has taken steps to promote innovation and research and development, including by increasing funding for R&D and fostering collaboration between academia and industry. However, more work must be done to create a more vibrant and innovative ecosystem in Turkey.

- OPPORTUNITIES

- Increasing demand for Turkish goods and services in foreign markets

The opportunity "increasing demand for Turkish goods and services in foreign markets" refers to the growing interest and demand for Turkish products and services in international markets. This presents a significant opportunity for business in Turkey, as it opens up new markets and revenue streams for Turkish companies.

Increasing demand for Turkish goods and services in foreign markets can be driven by various factors, including the country's strategic location, a growing reputation for quality and innovation, and competitive pricing. This presents opportunities for Turkish businesses to expand operations, increase exports, and establish new partnerships with international companies.

- Growing interest in Turkey from investors in the Middle East and Asia

The growing interest in Turkey from investors in the Middle East and Asia can be driven by various factors, including the country's strategic location, growing economy, and potential for investment and growth. This presents opportunities for Turkish businesses to establish new partnerships, access new markets, and tap into new sources of capital.

The opportunity of growing interest in Turkey from investors in the Middle East and Asia is a significant positive factor for business in Turkey, as it provides new opportunities for growth, investment, and partnerships with international companies. Addressing this opportunity will promote economic growth and competitiveness in the country.

- Favorable trade agreements with Europe and other countries

The opportunity "favorable trade agreements with Europe and other countries" refers to the favorable trade agreements that Turkey has established with European and other countries, which can significantly benefit Turkish businesses. This presents a significant opportunity for business administration in Turkey, as it facilitates access to new markets and reduces trade barriers.

Favorable trade agreements with Europe and other countries can be driven by various factors, including geopolitical considerations, economic incentives, and shared cultural ties. This presents opportunities for Turkish businesses to expand operations, increase exports, and establish new partnerships with international companies.

- Growing interest in renewable energy sources

The opportunity "growing interest in renewable energy sources" refers to the increasing demand for clean and sustainable energy sources, such as wind, solar, and hydro power. This presents a significant opportunity for business in Turkey, as it creates new markets and opportunities for investment and innovation.

Various factors, including environmental concerns, energy security, and economic incentives, can drive the growing interest in renewable energy sources. This presents opportunities for Turkish businesses to invest in renewable energy projects, develop new technologies, and establish themselves as leaders in the field.

- THREATS

- Political instability in the region

The weakness of "political instability in the region" refers to the ongoing conflicts and geopolitical tensions in Turkey's neighboring countries, which can create uncertainty and instability. This can negatively impact business in Turkey, as it can increase the cost of doing business, reduce investor confidence, and limit market access. Various factors, including conflicts, terrorism, and geopolitical tensions, can drive political instability in the region. This presents challenges for Turkish businesses, particularly those that rely on trade with neighboring countries or operate in the tourism and hospitality sectors.

The weakness of political instability in the region is a significant challenge for businesses in Turkey, as it can increase costs, reduce competitiveness, and limit market access. Addressing this weakness will promote economic growth and stability in the country.

- Economic downturns in Europe and other key trading partners

The weakness of "economic downturns in Europe and other key trading partners" refers to the negative impacts that economic downturns in Turkey's key trading partners can have on business in Turkey. This can include reduced demand for Turkish goods and services, increased competition, and decreased access to financing and investment.

The weakness of economic downturns in Europe and other key trading partners is a significant challenge for business in Turkey. It can reduce competitiveness, limit access to markets and financing, and hinder economic growth. Addressing this weakness will be necessary for promoting financial stability and resilience in the country.

- Increasing competition from other emerging economies

The weakness of "increasing competition from other emerging economies" refers to the growing competition that Turkish businesses may face from other emerging economies, particularly in manufacturing, textiles, and consumer goods. This presents a significant challenge for business administration in Turkey, as it can reduce market share, increase competitive pressures, and limit growth opportunities.

Increasing competition from other emerging economies can be driven by various factors, including globalization, technological advances, and changing consumer preferences. This presents challenges for Turkish businesses, particularly those that rely on low-cost production or that operate in saturated markets.

- Dependence on imports for critical goods and services

The weakness "dependence on imports for critical goods and services" refers to Turkey's reliance on imports for critical goods and services, such as energy, technology, and raw materials. This presents a significant challenge for business administration in Turkey, as it can increase costs, reduce competitiveness, and create vulnerabilities in the supply chain.

Various factors, including limited domestic production capacity, high costs of production, and limited access to financing and investment, can drive dependence on imports for critical goods and services. This presents challenges for Turkish businesses, particularly those that rely heavily on imported inputs or operate in sectors vulnerable to supply chain disruptions.

The weakness of dependence on imports for critical goods and services is a significant challenge for business administration in Turkey, as it can increase costs, reduce competitiveness, and create vulnerabilities in the supply chain. Addressing this weakness will promote the country's economic growth, stability, and resilience.

DISCUSSION AND CONCLUSION

This section summarizes the findings and recommendations and focuses on the effect of FDI inflows and FDI outflows on economic development.

Impact of Foreign Direct Investment Inflows and Foreign Direct Investment Outflows on Economic Development

There have been a number of empirical and theoretical studies that have attempted to evaluate how the influx of FDI may impact the economic growth of the host nations. According to Zhang (2001), Foreign Direct Investment (FDI) has the potential to boost economic growth in the country that receives it both directly and indirectly. In addition to this, he contends that foreign direct investment and expansion of the economy are favourably connected on one another. The fast expansion of foreign direct investment (FDI) has a favourable influence on economic growth, which often results in greater productivity owing to their additional facilities, which they achieve through acquiring managerial skills and superior technology from other nations. Most notably, foreign direct investment is anticipated to boost GDP through increasing human capital and facilitating technical advancement. In addition to this, it infers an increase in productivity through acquisitions that are pushed for and labour training that is supported by multinational corporations (Buckley et al., 2002).

In a similar vein, Althukorala (2003) discovers that foreign direct investment (FDI) provides developing nations with plentiful required resources such as technology, capital, and entrepreneurial qualities that are required to reduce poverty, generate new employment, and industrialise emerging countries. The degree to which foreign direct investment (FDI) affects growth is, however, contingent upon the standard of the economic and social environment of the host nations. The amount of technical advancement, the rate of savings in the host nation, and the degree of openness in the host country are all factors that contribute to the quality of the economic and social settings. When a country has high technical advancement, a high savings rate, and an open trading system, it will profit from increased FDI to their economic growth, and this gain will accrue to the country that is hosting the investment (Akinlo, 2022). According to Dinc and Gokmen (2022), rapid economic

growth typically results in an extreme level of a capital gap in host countries. This may result in a subsequent desire for more FDI by giving favourable conditions to attract foreign investors because FDI is a source of capital. Dinc and Gokmen (2022) state that rapid economic growth typically results in an excessive level of a capital gap in host nations. Specifically, a high degree of economic growth in emerging countries will increase trust and entice investors from other countries to participate in those nations' economies.

It is crucial to highlight that another empirical study by Arsoy (2012) deals with the impact of foreign direct investment on the economic growth of Turkey in the period 1960-2005. This study looks at the data from the period 1960-2005. The empirical findings suggest that direct investment from overseas makes a favourable contribution to economic growth through the accumulation of capital and the propagation of technical advancements.

To summarise, it has been observed that a number of research have been carried out to explore the link between foreign direct investment (FDI) inflows and outflows and economic development, exportation, labour force, capital accumulation, advanced technologies, skills, and monetary policy. These studies have been carried out in a variety of countries. The results of the majority of these research point to a positive connection between foreign direct investment (FDI) inflows, foreign direct investment outflows, and economic growth in developing nations. In a number of these research, the methods of panel data analysis and time series regression are utilised in order to offer and explain the association between economic development and foreign direct investment (FDI) inflows and outflows. In addition, a large number of them have based their economic growth on their GDP per capita.

Conclusion

This study aims to study whether FDI inflows and FDI outflows positively or negatively impact Turkey's economic growth from 2011 to 2021. Economic development is a dependent variable; FDI inflows and outflows are independent variables. There is a positive relation between FDI inflows, FDI outflows, and Turkey's gross domestic product growth. This was because most of the Western firms stopped investing. Moreover, inflows of FDI can cause higher local consumption and

usage of products, decreasing export values to other countries. However, this cannot enhance sustainable economic growth. Government and policymakers need to make policies for attracting FDI efficiently and effectively.

It is especially vital for the Republic of Turkey, which relies substantially on foreign capital as a percentage of national revenue, to have an understanding of the impact of both the entrance and outflow of foreign direct investment (FDI). It is apparent that the establishment of government organisations such as Invest in Turkey, which are accused of promoting, supporting, and analysing FDI, is clearly justified by the fact that attracting foreign direct investment (FDI) continues to be a major priority for governments worldwide (Deichmann, 2021). Turkey was successful in liberalising its regulations regarding foreign direct investment in 2003, and it continues to offer a large number of financial incentives in an effort to encourage international corporations to invest in the country. The constant task is to filter foreign direct investment for projects that maximise beneficial implications for Turkish society as a whole and for local enterprises in particular.

In its checklist of FDI policies, the OECD (2003) provides various recommendations for host countries in the form of guidelines. The vast majority of them go beyond just differentiating between domestic and international businesses. In the form of tax breaks, subsidies, and exemptions from regulatory requirements, they provide a dependable and open-book environment for the host country. In regard to the latter point, the reputation of the Turkish Republic continues to suffer from what The Guardian (2018) refers to as a "suffocating climate of fear" in the aftermath of the failed coup attempt that took place in 2016, as well as currency volatility and high interest rates (The Washington Post 2018). Not only do these factors present challenges for both domestic and foreign companies that are currently operating, but according to the findings of Alfaro, Kamli Ozkan, and Volosovi (2008), they are detrimental to Turkey's reputation as a safe and predictable destination for foreign direct investment (UNCTAD, 2017). This is because these factors present challenges for both domestic and foreign companies that are currently operating.

Recommendation

It is necessary to make certain that policies regarding foreign direct investment (FDI) inflows and FDI outflows have an effect on economic growth policies in Turkey. It is imperative that efforts be made to guarantee that foreign direct investment is channelled into vital areas of the economy. Foreign investors might be encouraged to participate in productive areas of the economy by being offered various programmes and incentives to invest in the country. Economic policy must increase domestic savings. The accumulation of gross savings is an important component of money sources for investments. The financial system might use some improvements and diversity in order to aid with the mobilisation of savings. When combined with efficient monetary and fiscal policies, the stock market may see huge and noteworthy rises in market capitalization as a result. However, in order to have a good influence on employment and capital structure, these savings must be made available to people who are engaged in productive activities and require funding. The policies of the government should encourage investment in the buildup of gross fixed capital.

It is imperative that trade policies be developed in order to boost bilateral commerce between Turkey and other economies. These processes can take the shape of tax reductions for companies that are involved in international commerce as well as subsidies for such industries. This can also be improved by entering into bilateral and multilateral trade agreements with other economies. On the other hand, deregulating the trade of productive commodities that boost the economic performance of Turkey and increase the flow of foreign cash may also be a useful effort. To get the much-needed foreign money that can stimulate economic growth, trade policies need to be devised to encourage increases in exports of goods and services.

Suggestions for Future Research

The research has considerably contributed to a better understanding of how foreign direct investment (FDI) inflows and outflows influence economic expansion. However, additional research might include a variety of elements in the model in order to broaden the scope of the investigation to include various industries.

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Date: 01/03/23 Time: 23:25			
Sample: 1 12			
	FDI_I	FDI_O	GDP
Mean	12961.45	3806.818	8.439182
Median	12969.00	3534.000	8.589000
Maximum	18976.00	6682.000	9.577000
Minimum	7821.000	2331.000	7.199000
Std. Dev.	2985.864	1271.702	0.721152
Skewness	0.276735	1.026067	-0.104861
Kurtosis	3.114247	3.325840	2.254733
Jarque-Bera	0.146384	1.978818	0.274728
Probability	0.929423	0.371796	0.871653
Sum	142576.0	41875.00	92.83100
Sum Sq. Dev.	89153865	16172254	5.200604
Observations	11	11	11

Covariance			
Correlation			
t-Statistic			
Probability	FDI_I	FDI_O	GDP
FDI_I	1.76E+08		
	1.000000		

FDI_O	50105652	15962070	
	0.945055	1.000000	
	9.141737	-----	
	0.0000	-----	
GDP	110417.5	32452.82	71.69257
	0.982689	0.959336	1.000000
	16.77361	10.74761	-----
	0.0000	0.0000	-----

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	6.363030	1.002834	6.345048	0.0002
FDI_I	0.000112	7.02E-05	1.597537	0.1488
FDI_O	0.000164	0.000165	0.994311	0.3492

R-squared	0.358054	Mean dependent var	8.439182
Adjusted R-squared	0.197568	S.D. dependent var	0.721152
S.E. of regression	0.645998	Akaike info criterion	2.190960
Sum squared resid	3.338506	Schwarz criterion	2.299477
Log likelihood	-9.050278	Hannan-Quinn criter.	2.122555
F-statistic	2.231056	Durbin-Watson stat	1.508692
Prob(F-statistic)	0.169822		

Hypothesized		**Trace**	**0.05**	
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.**
None *	0.963698	38.81795	24.27596	0.0004
At most 1	0.621973	8.974898	12.32090	0.1705
At most 2	0.024126	0.219801	4.129906	0.6964

	FDI_I	**FDI_O**	**GDP**
FDI_I	1.000000	0.221253	0.527941
FDI_O	0.221253	1.000000	0.391489
GDP	0.527941	0.391489	1.000000

CURRICULUM VITAE

Athraa SHAKIR ALI ALOGAILI, graduated from the University of Wasit in 2010 from the Department of Economics, and completed her master's study in the Department of Economics / Karabuk University in Turkey.