POLITECNICO DI TORINO

Corso di Laurea Magistrale in Engineering and Management

Tesi di Laurea Magistrale

Foreign Direct Investments in Turkey
A regional-level analysis

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July 2024

Your time is limited, so don't waste it living someone else's life. Don't be trapped by dogma - which is living with the results of other people's thinking. Don't let the noise of others' opinions drown out your own inner voice. And, most important, have the courage to follow your heart and intuition. They somehow already know what you truly want to become. Everything else is secondary.

Steve Jobs

Sommario

Abstract

This study examines the factors that influence foreign direct investment (FDI) in Turkey between 2011 and 2018. It specifically studies how local factors impact the investment decisions of multinational businesses (MNEs) in different locations. The study employs a conditional logit model to assess the influence of population, wages, infrastructure, and organized industrial zones on the attraction of foreign direct investment (FDI). The analysis is based on a dataset consisting of 1,192 investment cases. The study reveals that regions with greater populations and well-developed infrastructures greatly increase their attractiveness to foreign investors. Turkey's lower wages, in comparison to other nations, make it a compelling choice for investments that prioritize cost efficiency. Moreover, the existence of well-structured industrial areas plays a vital role in enticing foreign direct investment (FDI) through the provision of readily available infrastructure and efficient administrative procedures.

The results indicate that implementing strategic economic policies focused on improving labor flexibility and infrastructure development, particularly in underdeveloped areas, could increase Turkey's appeal as an investment location. Investors must comprehend regional variances in economic situations to make well-informed decisions. The dissertation asserts that economic and infrastructural elements exert a substantial impact on foreign direct investment (FDI). The study's findings offer valuable guidance to policymakers and corporate leaders in promoting economic growth and enhancing international collaboration. This research also paves the way for more studies on the lasting impacts of these investments and their consequences for regional development. It establishes a basis for future policy and investment plans.

Introduction

Foreign Direct Investment (FDI) is crucial for the economic development of countries since it brings in capital, facilitates technology transfer, enhances managerial abilities, and stimulates job creation. Turkey, situated at the intersection of Europe and Asia, offers a distinct setting for examining the patterns of foreign direct investment (FDI) because of its varied regional attributes and substantial economic prospects. This dissertation seeks to investigate the factors that determine Foreign Direct Investment (FDI) in Turkey. It will analyze how different variables impact the investment choices made by Multinational Enterprises (MNEs) in various regions of Turkey from 2011 to 2018.

Turkey's geographical and economic diversity provides an ideal setting for examining how local factors, such as population size, wage levels, infrastructure quality, and the existence of industrial zones, might influence the attraction or discouragement of international investment. The study used a conditional logit model to examine a comprehensive dataset of 1,192 investment cases, offering insights into the intricate interaction of these factors and their influence on the distribution of foreign direct investment within the country.

This dissertation commences by providing a clear definition of Foreign Direct Investment (FDI) and delving into its significance within the global and Turkish economic landscapes. The text examines the theoretical frameworks and prior empirical studies that are pertinent to comprehending the patterns of foreign direct investment (FDI). It specifically emphasizes the impact of geographical factors on investment choices. The methodology section elucidates the utilization of the conditional logit model and the process of collecting data, thereby establishing the foundation for a comprehensive examination of the outcomes.

This research enhances the broader discussion on economic development and international business strategy by identifying the crucial factors that impact foreign direct investment (FDI) in Turkey. It provides valuable insights for policymakers, business leaders, and scholars who are interested in understanding the dynamics of FDI in emerging markets. This inquiry seeks to enhance the scholarly understanding of Foreign Direct Investment (FDI) and provide practical recommendations to improve Turkey's attractiveness to international investors.

1 FDI definition and it’s evolution

1.1 Defining Foreign Direct Investment (FDI)

Foreign Direct Investment (FDI) has become a pivotal element in the global economy, influencing regional development and economic growth. This chapter aims to define FDI, its types, components, and its impact, with a special focus on Turkey. By examining FDI within the Turkish context, this study seeks to understand its role in shaping regional economic landscapes.

The degree of equity participation in a foreign corporation is one aspect considered when evaluating a company's international profile. However, it's vital to note that different countries and business groups may have distinct definitions.
According to UNCTAD (United Nations Conference on Trade and Development), Foreign Direct Investment is when a person in one country invests in a company in another country to gain control and manage its activities in a way that is integrated with the investing entity's activities in their home country or elsewhere.

The IMF (International Monetary Fund) and OECD (Organization for Economic Cooperation and Development) define Foreign Direct investment (FDI) as an investment in a foreign enterprise where the foreign investor owns at least 10% of the ordinary shares. The goal is to establish a long-term relationship and significant influence in the enterprise's management or participation.
As a result, investee companies can be classified using the following logic:

- Subsidiaries: companies where the investor has more than 50% of the share capital and can influence the meeting.
- Affiliated companies: companies where the investor has 10-50% of the share capital.
- Branches: enterprises with or without legal personality.

Alongside portfolio investment and other flows such as bank lending, foreign direct investment (FDI) is one of the three components of international capital flows. The key terms to distinguish FDI from portfolio investment, which is a short-term activity of institutional investors through the stock market, are "significant influence" and "long-term relationship". A "lasting interest" in a foreign company emphasizes how this type of capital flow differs from other types through the transfer of management skills or know-how.

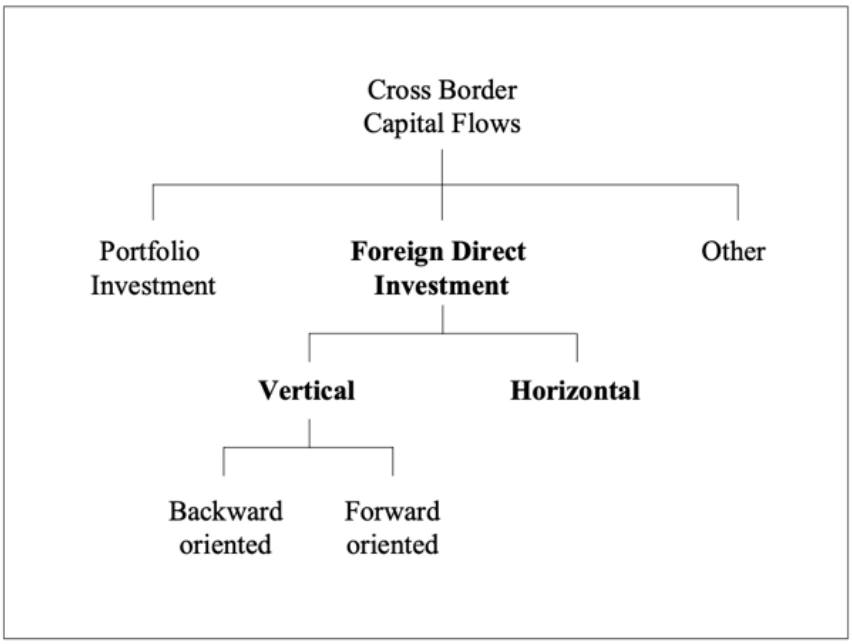

Figure 1 Structure of International Capital Flow

Next, we will explore the main categories of FDI, namely horizontal and vertical investments, to understand their diverse forms.

Finally, an enterprise will decide to invest abroad for various reasons:

- expand accessible markets.
- take advantage of lower input costs in different countries.
- the existence of tariff and non-tariff barriers, differentials in rates and exchange rate risks of different countries and economic and monetary areas.
- investing in developing states.
- take advantage of 'innovation from product diversification.
- possibility of exporting abroad not only products, but also the know-how necessary to make them.

1.2 Foreign Direct Investment Classification

A company's foreign investment can take many distinct forms; in fact, it will be unique due to the varied industries in which the organization operates, the numerous regions in which it operates, and the individual value chain activities that are being moved.

Therefore, FDI is classified mainly as horizontal/vertical and as greenfield/brownfield. They are respectively the classification based on structure and the classification based on method.

1.2.1 Horizontal, Vertical and Hybrid Investments

Companies that invest internationally may set themselves goals to either increase the quality of service provided to local markets or use local resources, labor, and raw materials that are either unavailable or more expensive in the place of origin. In the first case we speak of Horizontal Foreign Direct Investment, while in the second case we refer to Vertical Foreign Direct Investment.

Horizontal direct investment refers to a scenario where a company produces goods and services abroad that are similar to those offered in its home market. This type of FDI is termed 'horizontal' because it involves multinational companies performing the same activities across multiple countries, essentially replicating their domestic operations in foreign markets.

Due to trade barriers or transportation costs, it is too expensive to supply the overseas market through exports, resulting in horizontal FDI. Therefore, horizontal multinationals are companies that have several factories in different countries, each producing the same good or service for the local market. Therefore, the emergence of horizontal multinationals typically requires the presence of positive trade costs and the ability to achieve economies of scale at the firm level. Then, the avoidance of transportation costs or access to a foreign market that can only be served locally are the main reasons for horizontal FDIs. The horizontal models predict that multinational activities can arise between similar countries.

The best way to express the reasoning for horizontal FDI is as an equation with expenses on one side and benefits on the other. Dealing with a new country entails additional costs when establishing a foreign production instead of serving the market through exports. In addition, there are fixed and variable production costs that depend on the technology and factor prices. Setting up foreign plants will cost more due to economies of scale at plant level. On the other side of the equation, there are financial advantages by switching from export to domestic production. Customs duties and transportation costs are the most obvious. Proximity to the market also makes it possible to respond to the market faster and with shorter delivery times. Therefore, a global company will carry out a horizontal FDI if the benefits outweigh the costs (Protensko, 2003).

As written before, according to models of horizontal foreign direct investment, investment flows between comparable nations are possible as long as trade costs and economies of scale exist at the plant and firm level[1]. It has been examined the counterexample, which consists of two countries of different size and relative factor endowments, to illustrate the reasoning behind the models. In both cases, it has been assumed moderate transportation costs.

[1] Common inputs like research and development can be distributed over multiple manufacturing sites without causing losses, leading to the appearance of economies of scale at the firm level. When manufacturing is concentrated in a single facility, unit costs are reduced. This is known as plant-level economies of scale.

In the first scenario, horizontal multinationals are unlikely to emerge because they are at a disadvantage compared to the national company that has its headquarters and production site in the larger country. While the national company in the larger country bears the trade costs for the small number of exports to the smaller country, the multinational company has to pay the fixed costs for the investment in the smaller market.

In the second scenario, the size of the countries is comparable, but their factor endowments are different. The horizontal multinational has a disadvantage again. Indeed, it locates production in both more expensive, factor-scarce countries. The national company based in the nation with an abundance of factors (labor, for instance) manages the entire production process in the nation with low labor costs. Therefore, the existence of transportation costs is crucial since, in the absence of them, exports will service international markets, and the company will only exploit scale effects by setting.

In addition, there are two types of horizontal investments: the first is market-oriented, while the second is called horizontally integrated. In the first case, FDI and exports are considered as alternatives. In fact, as seen before, a firm invests abroad with the aim of reducing market access costs or increasing its competitiveness in the foreign market; therefore, in case the costs of entering a foreign market through export is greater than the costs that would be incurred in developing a new plant, horizontal investment is preferred over exports. Horizontal integrated production, on the other hand, is pursued by those firms that want to obtain maximum benefits from the economies of scale or scope, which is why the investments are called efficiency seeking, since the firm investing abroad aims to adapt products to the quality standards of different markets.

On the other hand, in the context of multinational companies (MNEs), "vertical FDI" refers to the deliberate distribution of production stages across different countries in a strategic manner. This strategy enables a corporation to take advantage of differences in input costs between various regions by dividing the production process into several stages, each of which requires certain resources. The segmentation, or vertical split, of the production chain is considered to be financially advantageous when there are variations in input prices between different countries. When analyzing vertical foreign direct investment (FDI), it is important to recognize that the production process consists of several phases. Each stage is designed to be cost-efficient by obtaining inputs from the most inexpensive sources.
As written before, this method aligns with the logic observed in horizontal foreign direct investment (FDI) models, where company decisions are determined by cost-benefit evaluations. A corporation can optimize its production costs by transferring specific stages of production to nations with cheaper input expenses. Nevertheless, the advantages of implementing such a plan must outweigh the expenses related to transportation and the challenges of working inside many national systems. Engaging in vertical foreign direct investment (FDI) is justified when the cost savings from dividing operations across different locations outweigh the associated expenses.

In principle, vertical FDIs between two countries will be favored if:

- they are different in size and endowment of factors and productive resources.

- international trade costs are not high, which allows production even in areas far from the market outlet.
- fixed planting costs are low and therefore there is less incentive to concentrate the entire production range in one location (as with horizontal FDIs).

Additionally, as depicted in Figure 1.1, vertical foreign direct investment (FDI) can be categorized into two groups: backward vertical FDI and forward vertical FDI.Four Backward FDI occurs when a multinational corporation creates its own supplier of input items that provides inputs to the parent company. By engaging in forward foreign direct investment (FDI), the company establishes a foreign subsidiary that obtains resources from the parent company to carry out its own production. As a result, the subsidiary remains downstream from the parent company in the production process.

Last but not least, Hybrid Foreign Direct Investment exists and follows a unique strategy in which firms engage in commercial ventures unrelated to their principal operations in their home country. These investments may take the form of joint ventures with local businesses in the host country because they typically occur in areas where the investing corporation has no prior experience.

1.2.2 Greenfield, Acquisition and Brownfield Investments

Foreign direct investment can also be classified with respect to the degree of involvement of the foreign investor in the activities or control of the host company; it will therefore be referred to as greenfield, acquisition or brownfield FDI.

Two thirds of international trade was made up of multinational corporations and their foreign affiliates, which also produced one third of the world's GDP.[2]

Given their economic significance, governments have provided tax breaks and subsidies to entice foreign direct investment (FDI) from multinational corporations. Host countries can benefit from three types of foreign direct investment (FDI):

- greenfield investment, where these multinationals develop new facilities;
- brownfield investment, commonly involving cross-border mergers and acquisitions where foreign multinationals acquire local businesses;
- acquisitions refer to FDI aimed at acquiring the ownership, or a controlling share, of companies already existing in the foreign territory**.**

Therefore, greenfield FDI refers to foreign investment in new industrial facilities. In many circumstances, the investor establishes a new production facility on previously idle land, increasing the productive capacity of the host area. According to Harzing (1998), investors acquire real estate and train local workforce in their region of operation. Greenfield FDI

[2] This data was obtained in 2016 from the OECD's analytical AMNE database. I refer to the September 25, 2019, VOX EU CEPR post, "Multinational enterprises in the global economy: Heavily discussed, hardly measured."

involves establishing a manufacturing plant from scratch in a different country than the country of origin. This allows for greater design flexibility and efficiency to fit the needs of the new project. Developing a new facility is typically less expensive than acquiring an existing facility. Additionally, developing new facilities can help investors advertise their business and attract personnel.

Acquisitions, in contrast, as said before, refer to FDI aimed at acquiring the ownership, or a controlling share, of companies already existing in the foreign territory. The foreign investor assumes control of the activities and facilities already present in the territory in which he is going to invest, with the risk that they will not conform to his needs production. In fact, the integration of the acquired enterprise could prove challenging asas the investor, through the acquisition, inherits a system of skills, culture company and values that is well established and reluctant to change.

Difference between greenfield FDI and acquisitions lies in the fact that a greenfield investment is essentially based on the investor's resources, which then need to be combined with those acquired locally; an acquisition, on the other hand, makes use primarily of the resources that already belonged to the acquired company, and then later amalgamates them with the investor's resources, particularly managerial skills.

Conversely, an example of acquisition that is distinct is brownfield foreign direct investments (FDIs). At first glance, brownfield investments may appear to be acquisitions; yet, upon closer scrutiny, they are actually greenfield ventures. A brownfield investment refers to a foreign investment that begins with the acquisition of an existing facility, but then involves extensive reconstruction and re-establishment of the local facility. This results in a shift towards a more greenfield approach, where the entire manufacturing process is revamped. After a short time of less than two years, the acquired company undergoes a transformation and acquires the necessary skills and capacities to rely solely on its own resources. Following the acquisition, the investor's resources are initially utilized to do various operations. One advantage of a brownfield investment strategy is that it allows for reduced start-up expenses and the saved time from not having to construct a new facility may be utilized more effectively. In addition, the brownfield strategy obviates the necessity for obtaining additional licenses or permissions from the present national or local government, as the factory may already be in compliance.
Brownfield investments might lead to cost reductions if the existing facility is already well-suited for manufacturing processes that align with the investor's requirements. Nevertheless, complications can develop from such investments. Typically, it is rare to come across a plant that possesses the essential capital goods, resources, and technology to completely fulfill the investor's goals. Furthermore, there is the possibility of further constraints on the enhancement of facilities or equipment, which could potentially diminish the anticipated benefits of the investment.

1.2.2.1 Choice between greenfield FDI, brownfield FDI or acquisitions.

When a business chooses to invest in another country, it must initially engage in the appraisal process to choose the type of investment to pursue. This assessment technique is divided into several sections. Initially, it needs to ascertain whether to allocate resources towards investment or exportation. If it chooses the latter, it must then make a decision on whether to engage in greenfield, brownfield, or acquisition investment. When considering a greenfield investment, one must also decide whether to pursue it through a joint venture or establish its own abroad subsidiary.

Several factors, such as the firm's size, resources, and internationalization ambitions, influence the selection about the sort of investment to be made.

Typically, big companies tend to prefer greenfield investments, which involve setting up new facilities. On the other hand, small and medium-sized businesses may choose brownfield investments, which involve acquiring and developing existing facilities. Smaller firms, however, may largely concentrate on exporting their products. Moreover, companies that have a wider range of resources that contribute to increased productivity are more inclined to make direct investments and have a preference for establishing subsidiaries rather than forming joint ventures.

The investment approach in the second stage of evaluation is determined by external circumstances and accessible resources, which can be owned by the investor, the market, or the local business. These factors assist organizations in aligning their investment choices with their strategic goals. oneself. These assets might be owned by the investor, the market, or the local business.

In the first case, the industry's competitive structure and the local enterprise's resources are the aspects that need to be looked at. If the acquisition route is chosen, the investor must search for companies that already have the resources they are looking for. While this is simple in developed economies, where there is a higher chance of discovering companies that are already appropriate for the investor's intended purposes, it will be noticeably more challenging in developing economies, where investors will therefore prefer a greenfield profile. The expenses related to the obstacles the market has established must also be considered. In fact, a greenfield investment that makes a given market more competitive by building new facilities may encounter backlash or competition disputes from established businesses in the sector that may feel threatened by the "entry of new competitors." In contrast, this does not occur in the event of an acquisition, which enables the investor to immediately seize a portion of the market. Other impediments to entrance include, for instance, regulations and bureaucratic restraints put in place by local governments to protect their economy from foreign competition; in this situation, brownfield investment is preferred over greenfield. So, If enterprises with suitable resources already exist in the local market for investors and the barriers to 'entry are high, acquisition will be preferred to investment Greenfield.

In the second scenario, which refers to resources that are owned by the investor, an analysis of those resources is required. If those resources are well-suited for the company's core operations and can be readily transferred to overseas markets, a greenfield profile will be selected; if not, acquisitions will be made. If the investor already has managerial experience in the public eye, financial resources suitable for the company's internationalization objectives, and other resources that can be readily shared between the parent company and affiliates, greenfield investments will be preferred. These resources can be used in the new venture without requiring special upfront costs for their development.

In the final scenario, the market's resources are examined. An "investment greenfield" has a better chance of success if the local market already has the complementary resources needed for the venture, including real estate, company permits, or skilled local labor. However, acquisition is preferred to "greenfield investment" if such complementary resources are not available in the market or local businesses are unwilling to sell them in order to maintain some portion of their competitive advantage.

Three additional factors should be taken into account when selecting the type of investment, in addition to the previously mentioned ones: transaction costs, resource adaptation and integration costs, and "cultural" costs.

Regarding transaction costs, they are a byproduct of the market's resource integration process and are inextricably linked to the "efficiency attained in corporate control markets," that is, the body of regulations guiding the purchase of domestic companies by subsidiaries of international corporations. Greenfield investments are preferred because brownfield investments may encounter problems that drive up transaction costs. Conversely, if corporate control markets are inefficient or underdeveloped, transaction costs will likely rise.

On the other hand, if the acquiring and acquired firms agree from both a strategic and organizational standpoint, the costs of adapting and integrating the resources will be minimal because these are the costs that would result from having to modify the new business to meet the demands of the investor. When the companies have similar organizational structures and strategic aims, a brownfield investment or acquisition is preferred; otherwise, a greenfield investment is chosen.

Lastly, costs associated with balancing the cultural traits of the countries that the different companies operate in must also be taken into account. As a matter of fact, cultural distance can lead to communication breakdowns, which impede full skill sharing between the parent company and the acquired business. Therefore, if there is a cultural gap between the companies involved, integration costs will rise, favoring a greenfield investment; on the other hand, a brownfield mode of entrance or an acquisition is preferred.
Furthermore, other variables that influence the mode of foreign direct investment (such as greenfield or mergers and acquisitions) and the policy implications of these decisions were analyzed and two connected questions were investigated:

- How do businesses decide between the two FDI entry modes?

- What impact does the firm's FDI mode selection have on the local economy?

The main idea behind GF is that it is different from M&A because it deals with intangible capital, like a company's supply network, intellectual property, and brand name. One thing that makes invisible capital unique is that it can't be used by anyone else (Crouzet et al., 2022). In contrast to physical capital, immaterial capital can be used in more than one place at the same time. A lot of foreign direct investment (FDI) is affected by the presence of intangible capital (Markusen, 1995; Burstein and Monge-Naranjo, 2009; McGrathan and Prescott, 2009, 2010). Organizations that invest a lot of their own intangible capital are likely to use those intangibles in foreign markets. This means they will rely on GF more than M&A. When multinational companies like Walmart have well-known global names, which is a type of intangible capital, they tend to prefer Greenfield (GF) investments (DePamphilis, 2019). Companies that don't have well-known names or good reviews, on the other hand, often try to get local brands.

1.2.3 Inward and Outward FDI

Now, it will be explored the classification of FDI based on the direction.

There are two primary approaches to foreign direct investment that we come across in the field: inward and outward. Comprehending the distinctions between the two is essential to comprehending the workings of global economic shifts.

Inward Direct Investment, or the direct investment into the domestic economy, refers to financial transactions between domestic enterprises and their foreign direct investors. These transactions involve the transfer of assets and liabilities between a local corporation and its foreign parent company, including interactions between local and international subsidiaries.

Conversely, Outward Direct Investment, often known as direct investment abroad, refers to the exchange of assets and liabilities between local investors and their foreign businesses. This encompasses the movement of funds or assets from a parent firm situated in the same country to its subsidiaries, which can be situated either domestically or internationally. This approach is commonly known as outbound direct investment.

This category based on direction serves as the foundation for the research of foreign direct investment. It may seem straightforward, but it provides a crucial basis for quantitative and economic research in order to distinguish between inward and outside foreign direct investment.

1.2.4 FDI Motivation Category

Multinational businesses (MNCs) opt to invest in foreign countries for a multitude of strategic rationales, with certain factors carrying greater significance than others. For them, the most

crucial question is ultimately whether entering a new overseas market can result in financial success.

There are three main types of FDI operations (classification based on the motivation):

- Market seeking investment refers to a corporation that seeks to invest in an area based on its market size and growth prospects. There is a strong correlation between the growth of the gross domestic product (GDP) and the patterns of foreign direct investment (FDI).
- Efficiency-seeking investment is when a firm chooses to invest in a certain location due to the host nation's lower costs, enhanced production processes, and other favorable characteristics.
- Resource-seeking investment refers to a corporation that seeks to invest in a particular place because of its abundant natural resources. This form of foreign direct investment (FDI) is especially common in the energy, mining, and agri-food sectors
- Strategic asset-seeking investment refers to investments driven by investor interest in obtaining strategic assets (such as distribution networks, human capital, and brands) that will help a company compete in a particular market. through the process of mergers and acquisitions.

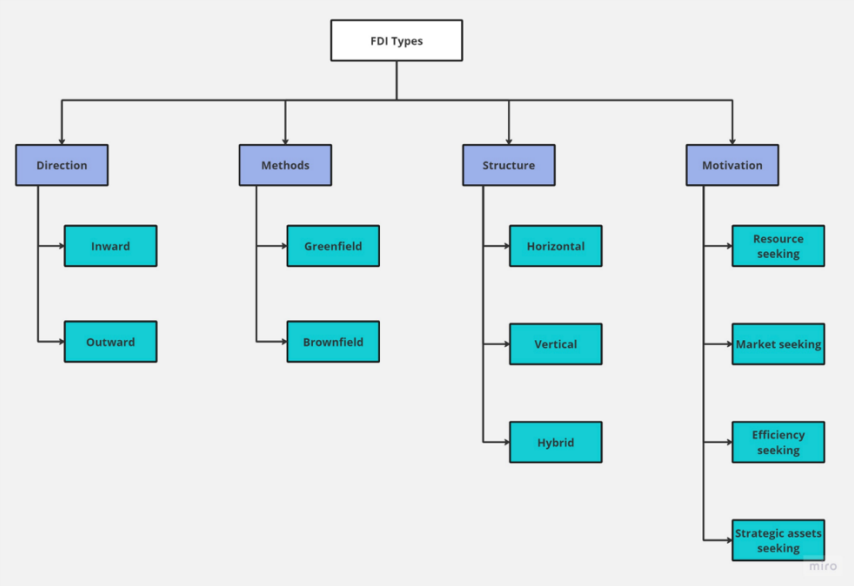

Figure 2 Categories of Foreign Direct Investment

1.3 Components of FDI

Foreign Direct Investment (FDI) flows refer to the movement of capital from a foreign direct investor to an enterprise, either directly or through related enterprises. It also includes the capital received by the investor from the investing enterprise. The flows consist of three primary elements: Equity Capital, Reinvested Earnings, and Intra-company Loans (UNCTAD, 2023).

- Equity capital: refers to the purchase of shares of a company by a foreign direct investor in a country that is not their own.
- Reinvested earnings refer to the share of profits that a direct investor retains, based on their equity involvement, instead of being distributed as dividends by affiliated entities or paid directly to the investor. These affiliates reinvest the earnings they earn.
- Intra-company Loans (or Intra-company Debt Transactions) refer to the exchange of money, whether for a short or long period, between parent firms and their associate companies.

The value of FDI stock is the sum of the affiliates' net debt to the parent company and the portion of their capital and reserves (including retained earnings) that can be attributed to the parent company.

1.4 FDI Effect on the Host Country

The impact of multinational firms is a contentious issue. Governments often invest heavily in efforts to encourage capital inflow. However, economists and others are concerned that foreign investment controls a significant portion of the national economy.

Foreign direct investment (FDI) can have both direct and indirect effects on recipient countries. Actually, greenfield initiatives have clear direct effects. Indeed, they refer to the net transfer of capital to the host country. What is more, empirical studies indicate that in the medium run, productivity, wages, and growth rates increase (Alfaro, Chanda, Kalemli-Ozcan, & Sayek, 2004). Moreover, FDI's impact depends on a variety of factors, including average education levels, income levels, a country's economy, and "path dependence" (Meyer & Sinani, 2009).

To understand indirect impacts, consider "knowledge spillover." The term refers to the benefits that local enterprises and actors in the sector receive as a result of the foreign presence. These externalities arise as a consequence of the presence of FDI and multinational enterprises, which spread into the host environment via imitation and competition mechanisms. If FDI benefits destination economies, it's reasonable to believe that countries with more inflows of investment perform better overall. Economists worldwide have shown a link between foreign direct investment (FDI) and growth, especially in nations with:

- stable economic and financial systems;
- high rates of technical-cultural knowledge absorption
- specific levels of education and social advancement (OECD Better Life Index,2022)

In contrast, developing countries experience growth in states with higher income levels. In fact, foreign direct investments in emerging countries are crucial for transferring knowledge and technology. Therefore, growth can only be achieved in "developing countries" with higher average education rates.

Besides, MNEs and their investments have a significant impact on the goods market, which might affect the efficiency of domestic enterprises. Multinational and domestic enterprises interact differently. They may trade directly for inputs and technology or compete in both goods and factor markets.

Furthermore, in imperfectly competitive markets, earnings and market share are allocated differently. Actually, foreign enterprises have a significant impact on market competitiveness. If markets are not totally competitive, local firms may cut their margins to gain a competitive advantage. It's important to consider the cost structure of the sectors where enterprises operate, as this influence cannot be assumed.

In addition to that, if economies of scale exist, reducing the number of domestic enterprises may result in higher costs and decreased competitiveness. The hardest consequence is the easiness of exiting the market when profits no longer meet costs.

Moreover, multinational firms' presence in domestic markets changes the labor market landscape. Foreign enterprises' investments may be less durable and unstable than those made by domestic firms. Employment in MNEs is therefore seen as more variable. Empirical data suggests that international corporations pay higher wages than local enterprises due to increased productivity (known as the Wage Premium). Other reasons are related to the fact that multinational corporations invest in education and training, seeking to thereby reducing turnover and the consequent loss of skills that would benefit possible competitors (Gorg & Strobl, 2002). The superior technological knowledge of multinational companies is reflected in the partial increase in productivity, although it must be recognized that this effect may be fostered by the mobility of human capital very often imposed by multinational companies.

The presence of links, whether horizontal or vertical, is the final factor contributing to this improvement. Multinationals' desire for specialized inputs drives vertical connections and the introduction of new inputs, leading to increased productivity among users. Producing a greater range of intermediate items can give local enterprises a competitive advantage when producing more complex end goods. Horizontal links can have a negative impact on a sector's competitiveness, compounding the good impacts of creating relationships (Blomström & Kokko, 2002).

1.5 Effect on the Home Country

When analyzing FDI from the perspective of the country of origin, it is clear that these investments result in a loss of resources that could have been invested domestically. The phenomena are complex and requires a long-term perspective to determine if foreign investment indirectly strengthens the home economy.

The primary concern is how FDI affects the size of business activity in the nation of origin. Vertical FDIs, as analyzed in “Foreign direct investment classification” pargraph, allow for the

transfer of a portion of industrial activity to another location. This transfer reduces production costs, increases market share, and has long-term benefits for local activities. On the other hand, horizontal FDIs, as written in the same previous paragraph, involve replacing exports from plants in the nation of origin, leading to a drop in domestic aggregate product. When plants abroad use domestic inputs, it boosts economic activity in the home country.

FDI's impact on enterprise technical progress is a key question, as previously discussed. Foreign subsidiaries can facilitate technology acquisition and transfer to domestic activities. International activities might disperse a firm's proprietary technology, lowering its value and limiting investment in domestic activities.

International competition drives resources away from the place of origin and into foreign domestic markets.

One of the most contentious concerns surrounding FDI is jobs. MNE has an impact on essential parts of the workforce, such as: foreign affiliates' production may be substituted or complementary to that of the parent company and domestic firms. This can affect employment levels, the composition of domestic employment, and the need for skill upgrading. The impact of FDI on skilled worker demand is part of a larger discussion on how international commerce contributes to wage disparities between skilled and unskilled workers in developed countries. Economists and sociologists have studied how MNEs' economic interdependence with local firms affects labor force composition and price and wage fluctuations, causing changes not only in the first country but also in other states where the MNE operates.

1.6 The evolution of FDIs

1.6.1 FDIs before 2007

Given the tremendous expansion attained in recent decades, the phenomenon of foreign direct investment has undergone numerous developmental phases that have led to its current status as a topic of in-depth study. Large multinational corporations started to emerge in the 1950s and started to play a significant role not only in terms of economics but also in terms of the growth of the countries, or what are known as developing countries. Major business groups in the United States and Europe had started to open companies operating in countries other than their home countries as early as the early 1900s.

In any case, it's important to note that until the first half of the 1980s, the flow of foreign direct investment remained essentially constant, with its value consistently remaining below $100 billion. Furthermore, this flow was, in theory, concentrated in a small number of the world's developed economies, with investments in the less developed nations primarily focused on the purchase of raw materials.

The phenomenon in question played a leading role in the evolution of the global economy in the second half of the 1980s and, most definitely, the 1990s; flows started to grow dramatically, showing a slight decline in 1990–1991 before peaking at the turn of the millennium with an ever-increasing increase in value—the estimated amount of foreign direct investment in the year 2000 reached $1400 billion.

The phenomenon under consideration underwent a sharp slowdown following the September 11, 2001 attacks; it should be noted, however, that this slowdown primarily affected developed economies. The phenomenon has actually seen a significant regression of economic activity in the main economies' industries, as well as a sharp decline in stock market transactions.
However, the high degree of uncertainty brought on by these events—which included increased perceived political risk and links to terrorism and war—may have caused businesses to adopt a wait-and-see strategy. In fact, it is well known that many of them stopped making planned investments after September 11, 2001.[3]

When the expansionary dynamic began even more vigorously in 2003 compared to the previous decade, this period of uncertainty and decline in the phenomena came to an end. With around $2200 billion invested, foreign direct investment reached its biggest peak ever in 2007. As shown in Figure 1.3.

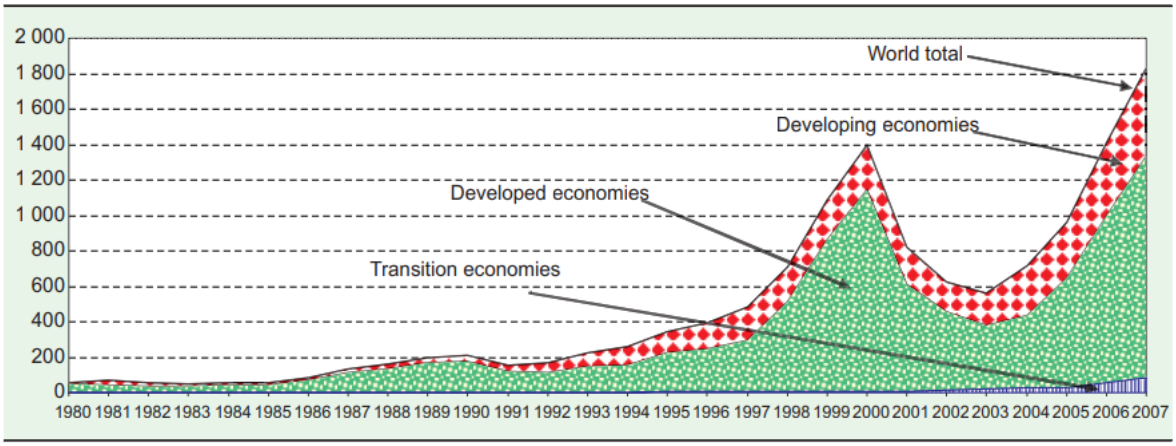

Figure 3 FDI inflows, global and by groups of economies, 1980–2008

(Source: UNCTAD World Report 2008)

The economic crisis has since had a substantial effect on the flows, preventing the phenomenon from growing steadily. In fact, the trend reversal has resulted in a return of the share of foreign direct investment to 2001 levels, with a decrease of nearly $700 billion (or 30% of the flows recorded in 2007).[4]

[3] UNCTAD, *World International Report 2002: Transnational Corporations and Export Competitiveness*, pp. 3 ss.
[4] UNCTAD, *World International Report 2014: Investing in the SDGs, An Action Plan*, pp. XIII e ss.

The 2007-2008 financial crisis devastated the global economy, particularly in wealthy countries. FDI flows to these economies plummeted by 48.9%, while developing economies had a lower decline of 11.8%. The crisis also changed the geography of FDI, with developing countries gaining clout in the global arena. Indeed, as wrote before, the 2007–2008 economic crisis marks a significant turning point for the phenomenon under study; in any event, the primary sources and destinations of foreign direct investment remain to be Europe, North America, and Japan.

On the other hand, developing economies are becoming increasingly relevant internationally, especially when it comes to becoming the destination of flows. To recapitulate the extent of the trend reversal, it is sufficient to note that developed nations accounted for 69% of inbound investment in 2007 and 51% in 2009, while outbound investment fell from 85% to 74%. It even dropped to 45% for FDI coming in and 65% for FDI leaving in 2015.

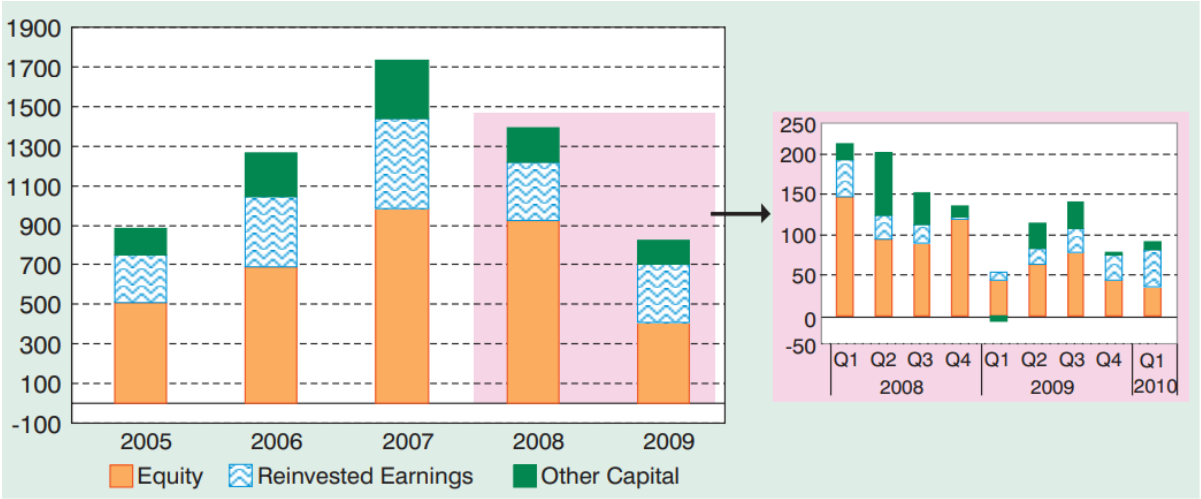

Figure 4 FDI inflows, by component, 2005–2009, with quarterly data for 2008–2010 Q1

(Source UNCTAD 2010)

Item	Value at current prices (Billions of dollars)				Annual growth rate (Per cent)				
	1990	2005	2008	2009	1991–1995	1996–2000	2001–2005	2008	2009
FDI inflows	208	986	1 771	1 114	22.5	40.0	5.2	-15.7	-37.1
FDI outflows	241	893	1 929	1 101	16.8	36.1	9.2	-14.9	-42.9
FDI inward stock	2 082	11 525	15 491	17 743	9.3	18.7	13.3	-13.9	14.5
FDI outward stock	2 087	12 417	16 207	18 982	11.9	18.4	14.6	-16.1	17.1
Income on inward FDI	74	791	1 113	941	35.1	13.4	31.9	-7.3	-15.5
Income on outward FDI	120	902	1 182	1 008	20.2	10.3	31.3	-7.7	-14.8
Cross-border M&As a	99	462	707	250	49.1	64.0	0.6	-30.9	-64.7
Sales of foreign affiliates	6 026	21 721	31 069[b]	29 298[c]	8.8	8.2	18.1	-4.5[b]	-5.7[c]
Gross product of foreign affiliates	1 477	4 327	6 163[d]	5 812[e]	6.8	7.0	13.9	-4.3[d]	-5.7[e]
Total assets of foreign affiliates	5 938	49 252	71 694[f]	77 057[f]	13.7	19.0	20.9	-4.9[f]	7.5[f]
Exports of foreign affiliates	1 498	4 319	6 663[g]	5 186[g]	8.6	3.6	14.8	15.4[g]	-22.2[g]
Employment by foreign affiliates (thousands)	24 476	57 799	78 957[h]	79 825[i]	5.5	9.8	6.7	-3.7[h]	1.1[i]
Memorandum									
GDP (in current prices)	22 121	45 273	60 766	55 005[j]	5.9	1.3	10.0	10.3	- 9.5[j]
Gross fixed capital formation	5 099	9 833	13 822	12 404[j]	5.4	1.1	11.0	11.5	-10.3
Royalties and licence fee receipts	29	129	177	..	14.6	8.1	14.6	8.6	..
Exports of goods and services	4 414	12 954	19 986	15 716[j]	7.9	3.7	14.8	15.4	-21.4

Figure 5 Selected indicators of FDI and international production, 1990–2009

(Source: UNCTAD 2010)

1.6.2 FDIs after 2007

The 2007 crisis precipitated a complex and diversified recovery period for FDI inflow. Developed economies had an upturn, albeit with significant variation, as indicated by setbacks in 2014 and 2017 as shown in Figure 1.6.

In contrast, developing countries (Africa, Asia, Latin America, and the Caribbean) and transition economies (Southeast Europe, the Commonwealth, and Georgia) have led the way, absorbing more than half of global post-crisis FDI flows. Their progress, while modest and steady, has taken a noticeably different path from that of wealthy countries.

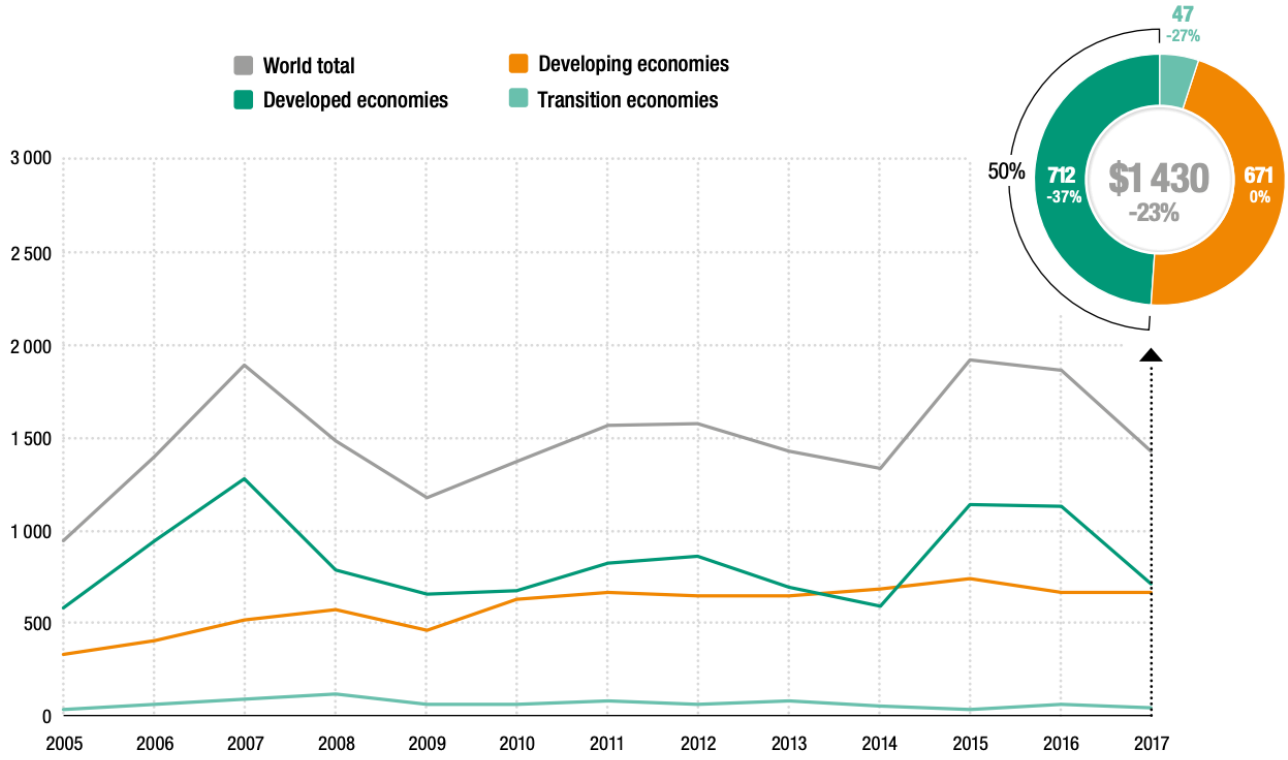

Figure 6 FDI inflows, global and by group of economies, 2005–2017in billions and per cent

(Source: UNCTAD 2018)

China is the most important rising economy; it nearly quadrupled its abroad operations between 2003 and 2009, not slowing down even in the 2007–2009 period; similarly, India and Brazil grew their outflows by 50%, while Russia raised its outflows by 30%.

Foreign direct investment flows decreased by 16% in 2014, from $1,500 billion in 2013, a little increase over the previous year, to precisely $1250 billion in 2014. The trend phase of the investment is negative. The weakening of the world economy, the absence of clear investor policies, and the unstable geopolitical balance that amplifies risks and uncertainties are the primary causes of this decline in investment. The high rate of disinvestment that characterized 2014 must also be added to this list of causes. But once more, it should be noted that this fall only applies to nations with developed economies, as those in developing nations have witnessed an increase in the percentage of foreign direct investment both outbound and inbound.

According to the 2017 figures, there was a drop in FDI in developed economies. This contradiction, which contrasts with the expansion in GDP and commerce, can be partially explained by a few factors:

- Extensive corporate reconfigurations: Mergers and acquisitions have shifted the geography of FDI, although this has not always resulted in increased net investment.
- Falling rates of return: Despite commodity price stabilization, FDI returns have declined dramatically over the last five years.

Developing countries have demonstrated more resilience to the crisis as shown in Table 1. After a modest decrease of 10% in 2016, they have resumed their growth due to:

- A little uptick in commodity prices: In particular, oil and crude oil have fueled the rebound in several countries.
- Economic expansion of natural resources: China was a major player in this.
- Dynamism in Latin America and the Caribbean: Despite a 21% fall in Africa, these countries witnessed an 8% increase.

Region/economy	2009	2010	2011	2012	2013	2014	2015	2016	2017
World	1.179,06	1.371,92	1.567,68	1.574,71	1.425,38	1.338,53	1.921,31	1.867,53	1.429,81
Developed Economies	656,28	679,76	824,39	858,26	693,15	596,70	1.141,25	1.133,25	712,38
Developing economies	461,00	628,48	663,86	651,50	648,54	685,29	744,03	670,16	670,66
Transition economies	61,78	63,68	79,43	64,95	83,68	56,54	36,02	64,13	46,77

Table 1 Post-crisis 2007 FDI inflows, data in billions of dollars

(Source:Reprocessed data: UNDTAD, 2018)

Developed economies recovered some of the ground lost between 2007 and 2014, with FDI outflows totaling $1 trillion, accounting for 70% of the total. However, the 2015 recession did not support the increasing trend.

In contrast, developing and transition economies saw their FDI outflows roughly treble in the years following the crisis. However, this tendency came to an end with the 2015 recession.

Region/economy	2009	2010	2011	2012	2013	2014	2015	2016	2017
World	1 101,9	1 373,7	1 563,8	1 369,5	1 380,9	1 262,0	1 621,9	1 473,3	1 430,0
Developed economies	820,4	965,9	1 128,7	973,7	890,1	731,7	1 183,6	1 041,5	1 009,2
Developing economies	243,1	357,3	379,4	362,7	415,0	458,0	406,2	406,7	380,8
Transition economies	38,4	50,5	55,6	33,2	75,8	72,3	32,1	25,2	40,0

Table 2 2007 post-crisis FDI outflows, data in billions of dollars

(Source Reprocessed data: UNDTAD, 2018)

Alongside the value of FDI activities, two other metrics play an important role:

- The number and value of announced greenfield investments: these metrics assess corporations' willingness to establish new operations abroad.
- The number and value of merger and acquisition sales and purchases: this information provides insight into multinational corporations' investment strategy.

Analyzing these variables, along with the value of FDI, provides a full perspective of international investment activity and its numerous aspects.

Figure 1.7 illustrates the impact of the 2007 crisis on greenfield investment flows. While the number of announced projects has stayed consistent over the past decade, the total amount of flows has decreased dramatically. The 2017 data confirms this pattern, with a 14% decrease from $833 billion to $720 billion.

After a transition period from 2009-2011, M&A investments resumed growth, reaching $886 billion, the second highest historical value after $1000 billion in 2007. In 2017, investment in international mergers and acquisitions declined by 22% to $694 billion.

Developed countries continue to be the primary source of greenfield investment, although in the previous 6 years, developing countries have seen the most investment, with Europe leading the way, followed by Asia and North America. Over the past two decades, Asia has been the top destination, followed by Europe and North America.

1.6.3 FDI during Covid Era

The global economy is facing a significant challenge as a result of the COVID-19 epidemic, which has severely disrupted foreign direct investment (FDI) flows worldwide. Travel restrictions, lockdowns, and a downturn in the global economy have all contributed to a substantial decline in foreign direct investment (FDI) inflows following the epidemic and the ensuing worldwide economic collapse. Undoubtedly, it resulted in a significant decline in Foreign Direct Investment (FDI), as worldwide FDI flows are projected to plummet by as much as 40% in 2020 compared to their value of $1.54 trillion in 2019. This decline could potentially bring the FDI below $1 trillion, marking the first time it has fallen below this threshold since 2005. FDI was forecasted to decline by an additional 5 to 10% in 2021, followed by a rebound in 2022. Multinational enterprises (MNEs) had to immediately pause their expansion plans and reevaluate their investment goals due to previously unheard-of difficulties, such as supply chain interruptions, dwindling customer demand, and greater operational uncertainty. This unpredictability led to many cross-border mergers and acquisitions (M&As) and greenfield project cancellations or delays.

All regions have seen large drops in foreign direct investment (FDI) as a result of the epidemic, but emerging economies are predicted to experience the biggest drops because of their reliance on extractive and global value chain (GVC)-intensive industries, which are among the hardest

hit. Developed economies, on the other hand, have been able to put in place more extensive economic support policies. The fall in foreign direct investment (FDI) flows to various regions emphasizes the disparities in economies' ability to withstand the crisis and emphasizes the necessity of a coordinated worldwide endeavor to promote resilience and recovery in the post-pandemic environment.

Following these early shocks, several nations and international organizations launched a variety of recovery programs designed to stabilize the economy and attract fresh investment. Monetary easing, fiscal stimulus packages, and targeted incentives like tax breaks and streamlined regulations for foreign investment were some of the tactics used. Despite these initiatives, there have been notable differences in the recovery of FDI flows between various industries and geographical areas.

Both new investment dynamics and some pre-existing tendencies in global FDI were accelerated by the epidemic. The knowledge economy and digitalization have gained significant traction, as evidenced by the rise in investments in fields like biotechnology, healthcare, and information and communication technology (ICT). This change highlights how important digital infrastructure and services are becoming, as evidenced by the rise in e-commerce, digital health, and remote work. Furthermore, as a result of the pandemic, supply chain robustness has been reevaluated, and multinational enterprises (MNEs) are progressively attempting to diversify their supply chains and, in certain instances, reshore or nearshore production facilities in order to improve operational resilience.

1.6.4 The last year: 2023

Following a significant recovery in 2021, foreign direct investment (FDI) experienced a decline of 12% to reach $1.3 trillion on a global scale in 2022. A number of global issues, such as the conflict in Ukraine, rising food and energy prices, and rising governmental debt levels, are mostly to blame for this decline.

Developed economies were the hardest hit by the crisis, experiencing a 37% decline in foreign direct investment (FDI) to $378 billion. On the other hand, foreign direct investment (FDI) into emerging countries increased by 4%, albeit not evenly. The majority of these investments went to a small number of very large emerging economies, whereas inflows to the least developed countries decreased.

Indeed, in many sectors and industries, the quantity of declarations about greenfield investment initiatives experienced a 15% surge in 2022.

Project announcements surged in industries like electronics, semiconductors, automotive, and machinery that deal with supply chain interruptions. In the meantime, there was a decline in the rate of investment in areas of the digital economy.

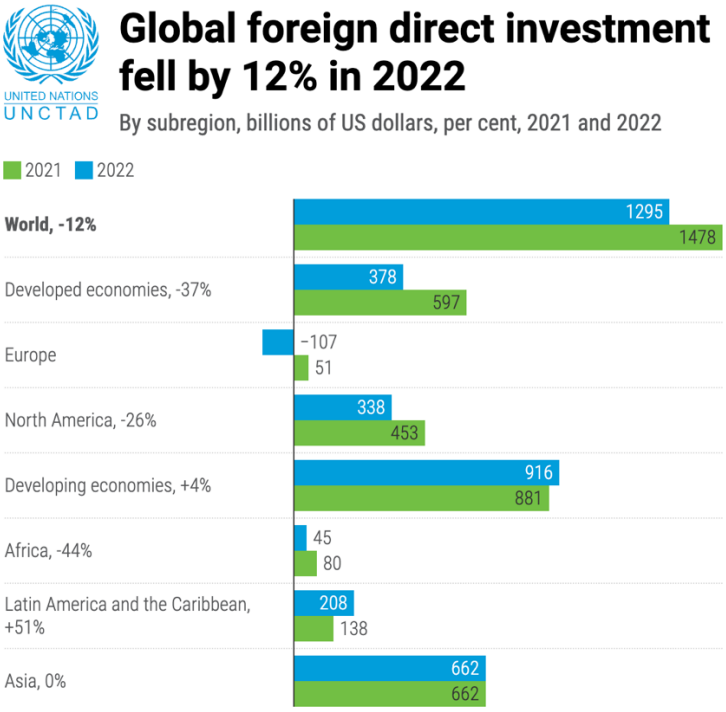

Figure 7 Global FDI in 2022 by subregion in billions

(Source: UNCTAD 2023)

1.7 Hymer's Theory

It's important to analyze the general theory that underpins this phenomenon (FDIs). This theorization seeks to discover the underlying reasons behind this sort of entrepreneurial strategy and establish a general rule to assist research and decision-making processes for investors.

Stephen Hymer, a Canadian scholar, identified the potential of foreign direct investment in the early 1960s. In his doctoral thesis, he distinguished between direct and portfolio investment[5], with the latter based on yield differentials. Hymer's study examines the characteristics of foreign direct investment (FDI) and the entrepreneurial motivations underlying these methods.

The Canadian scholar's model focuses on the firm, rather than the specific product, and examines the decision-making process that leads to foreign direct investment in local production rather than exporting items.

[5] UNCTAD's World Investment Report 2009: Transnational Corporations, Agricultural Production and Development emphasizes the distinction between direct and portfolio investment, which is a key component of the UN and OECD definitions of foreign direct investment.

Initially, a company grows to a national level through concentration, which can occur through market price increases or extraordinary operations such as mergers and acquisitions, resulting in increased profits for the company.

The latter achieves a privileged position in the national arena, but due to the limited number of significant enterprises, it cannot continue in this concentration process. The large profit from the quasi-monopoly position cannot be reinvested in the local market. Instead, it can be used to expand beyond national borders.

According to Hymer, international growth can be achieved by establishing local production through licensing or direct investment.

Canadian economists identify the reasons for direct foreign investment as the company's desire to capitalize on its own advantages in terms of competence, entrepreneurialism, and access to capital. These factors are often more pronounced abroad than in the country of origin.

Hymer's theory acknowledges the disadvantages of direct investment, such as the costs of interacting with different languages, cultures, and administrative systems, which can make it more difficult for the investor to compete in the market.

In summary, a company will invest in a foreign country to offset expenses and capitalize on new market prospects. Foreign direct investment can only be observed when there are market imperfections that lead companies to choose this option over exporting. Using this tool allows the organization to reduce competition, avoid conflicts, and capitalize on its competitive advantage.

Hymer's theory was further developed by economist John Harry Dunning, who developed the most relevant aspects, resulting in a comprehensive theory that serves as a guide for foreign investors.

1.8 Dunning's Theory

Hymer's theoretical elaboration influenced the thinking of John Harry Dunning, a prominent economist on foreign direct investment. His research contributes to the development of Canadian economic theory.

As analysed in the *"The evolution of FDI"* paragraph, foreign direct investment gained prominence in the 1980s, coinciding with increased market internationalization[6]. Researchers have examined the phenomena to identify its key features; British economist Dunning's research has defined models and frameworks that are applicable to similar operations.

[6] UNCTAD, *World Investment Report 2002: Transnational Corporations and Export Competitiveness* , pp. 3 e ss.

Drawing upon the international life cycle theory of foreign direct investment, Dunning aims to contend that FDI inflows and outflows are intimately linked to the level of economic development attained by the country of reference. The British theory posits that notable outflows can only be observed in states that have attained economic maturity and are equipped with a competitive system of enterprises operating at the supranational level.

Furthermore, Dunning elaborates on his ideas by analyzing a nation's growth cycle from the standpoint of foreign direct investment once more. From there, he divides economic development into five stages, each of which has a distinct dynamic for FDI flows, both inbound and outbound.

During the initial phase is difficult to successfully attract foreign capital and fulfill the function of an international investor due to incredibly weak pull factors. Following an early phase, we reach a transition phase where the nation presents foreign investors with favorable prospects for profitable settlement; hence, inflows start to rise, while outflows stay extremely low. During the expansion phase, the state's businesses start to establish their competitiveness on a transnational scale. This boosts outflows, which balance out the rate of inward investment and shifts the burden to the other side of the balance. Later, when the nation's growth has stabilized, the balance will likely revert to equilibrium since the ability to draw investment will match the propensity of local businesses to expand overseas[7].

An additional aspect of Dunning's theory pertains to the types of investments that states can draw in at different phases of their economic development. In the initial phases, the objective is to acquire specific businesses in low-tech manufacturing or raw materials. However, as the country's industrial and economic system expands, it can also witness a rise in foreign direct investment in high-value added sectors.

The British theory also sees future advancements, including the definition of an"eclectic paradigm" as a foundation for analyzing the actions of the various players and the examination of the internal and external factors that motivate an investor or business to expand internationally.

1.8.1 O.L.I Approach

After analyzing the foreign life cycle of foreign direct investment, it is appropriate to present the eclectic paradigm that Dunning introduced. This paradigm aims to prepare a general scheme that can be applied to any kind of case that involves foreign direct investment, as has already been announced.

[7] Dunning's analysis has been empirically verified: see UNCTAD, World Investment Report 2006: FDI from Developing and Transition Economies, Implications for Development, pp. 157ff.

The O.L.I. method, which stands for Ownership, Location, Internalization and denotes a sufficiently comprehensive framework that can embrace the widest range of scenarios, is another moniker for the eclectic paradigm. Three factors are identified that prompt an enterprise to make an overseas investment: the first, referred to as "*ownership advantage*", materializes when the investor possesses unique resources and competencies that allow him to establish a relevant competitive advantage even in foreign markets; however, this condition is also realized when the enterprise, through its international organization, manages to bring down transaction costs to a level below that of its rivals.

A company will move in a supranational direction if it finds, in a particular foreign market, the ideal conditions for the development of its activities, in a way that further enhances its resources and skills. This second requirement is known as the *"location advantage*", and it refers to the country of reference as the ideal ground for the strengthening of the company's competitive advantage because, while it guarantees the possibility of the enterprise using its assets going forward, it also makes it easier to exploit specific resources and operating conditions in that territory.

The ability to use the competitive value of certain resources and skills that an investor has available in a foreign country without granting their use to third parties, through sale or license, is the third and final requirement, or "*internalization advantage*," for an investor to internationalize. This exploitation is direct and immediate and ensures the possibility of obtaining an enhancement of its competitive advantage.

It is possible to distinguish, in this regard, between exports, strategic agreements, joint ventures, and foreign direct investment in the proper sense, including import activities, as they manifest in any case an international-like presence on the part of the enterprise itself. The internal forces that influence investment choices depend on how the transaction is carried out.

It is feasible to identify the investor's main goal in the necessity to obtain improved or additional supply conditions by starting with the instance of imports. It's also feasible that the latter is motivated by a desire to fortify strategically significant relationships with overseas manufacturers, who might end up being the perfect allies in this.

Turning now to exports, the drive for internationalization comes from the chance the new market presents to pursue new paths and capitalize on one's special competitive advantage in a place that is very different from one's home country. The requirement to find new business locations may result from slowing local demand growth or even market saturation, but it may also be a response to local rivalry become more intense. However, the existence of extremely favorable conditions for the realization of this kind of operation in the market, object of interest, can equally, and much more simply, result in the search for new chances.

Another reason for exporting is the necessity to learn new things in a particular economic climate without having to finance unnecessarily expensive investments. This means that the

goal of the experimental practice can then be to implement a more difficult plan, maybe by way of a full-fledged investment operation.

Moving on to the topic of strategic agreements, which are always internal to the company, it is necessary to note that these last ones also represent a more direct form of investment as they do not require a direct increase in the size and organizational complexity of the business. What hinders, therefore, the realization of this kind of operation is, presumably, the company's desire to enter new geographic markets where it is unable to operate independently for both internal and external reasons that do not permit complete industrial and financial autonomy. However, the company's wish to learn and gain expertise in order to have a more direct future presence in the target nation may also make it necessary to enter into strategic collaborations or establish a joint venture.

After thoroughly examining the domestic incentives that a business, and investors more broadly, face during the internationalization process, it is appropriate to stray into the external factors that drive these topics in this particular path.

In this context, the first input is the internationalization of the market and production chain, which can take two forms: from an external perspective, the various business areas may tend to assume a supra-local dimension, giving the investor the opportunity to expand its pool of interest beyond national borders; on the other hand, by analyzing the case from within, the target market may be more exposed to international competitive forces and consequently the level of contestability of demand and the same market becomes more easily attacked by international investors. Internationalization can occasionally transform from an opportunity into a requirement and become nearly unavoidable for the enterprise's survival, particularly when the domestic economic system approaches full maturity, if not decline.

Customers' actions suggest a second rationale, which could be an externally driven desire for supranational expansion, as they might employ the same entrepreneurial tactic. In this instance, the client directs and leads the internationalization process. This is especially the case when the firm being directed is a specialized supplier that must constantly adjust to the needs of its clients, even at the simply logistical level.

Therefore, it makes sense to view internationalization as a reaction to the tactics used by its rivals. In reality, a company's efforts to fortify its competitive edge may prompt a rival to retaliate by pursuing a plan of transnational expansion. Furthermore, the majority of the time, internationalization is a reaction to the very internationalization of the company's closest rival, and there is a wide range of behaviors that a business can adopt. The most popular strategy, known as the *bandwagon effect*, involves copying the actions of rivals and involves an enterprise entering a foreign market that has already been penetrated by rivals out of fear of losing control of significant sources of competitive advantage, seeing its own market situation deteriorate, or experiencing a decline in market share.

The so-called exchange of threat is another tactic that can be used. It is usually employed when a company must respond to an attack by a foreign competitor in its home market. The company responds by entering its rival's market and thereby accomplishing several goals: first, it notifies its rival of its intention to respond aggressively; second, it limits its ability to expand in both markets; and third, it can persuade its rival to pursue a mutual agreement of competitive leadership in the various geographic markets.

A fourth external force pushing internationalization could come from the involvement of public or private institutions, who might start providing specialized support services to the same businesses who want to use this kind of approach. These services can be incredibly diverse and include everything from giving clients thorough information about overseas opportunities to going with them to trade shows and other international business activities to providing actual legal guidance, not to mention the potential financial help.

Finally, supranational expansion can also be defined as the presentation of significant commercial opportunities; important is the presence of an external client or an intermediary who can stimulate the investor in this way by offering a convenient and imprudent investment opportunity on their part.

1.9 New Theories about FDIs

Given that Dunning's theory serves as a point of reference for analyzing the phenomenon of foreign direct investment, it is imperative to acknowledge the evolution of this theorization. To this end, a parenthesis on the so-called new theory of FDI must be opened, building on the insights of British economists, and attempting to address every pertinent detail in the analysis of the phenomenon under investigation.

Most of the cases involve refinements to Dunning's theory, which manages to capture the most diverse forms of internationalization; that being said, it is indisputable to assert that the new theory of IDEs identifies additional points of interest that require analysis.

It should be noted, in any case, that Hymer's theory provides the basis for Dunning's contribution to the field, influencing subsequent studies and, particularly, the pioneers of the new theory on direct equity investments.
As previously noted, this new way of thinking draws from the Canadian economist's developments as well as the British theory of the eclectic paradigm. The focus was to be on ownership and geographical advantages, according to the researcher Elhanan Helpman, in an effort to trace large enterprises' internationalization decision-making process within a framework of general economic equilibrium. Therefore, variations in the relative endowment relative and factor cost—assuming, among other things, that transportation costs were zero—determined a company's existence in a market different than its home market. This approach's primary drawback is that, despite its excellent fit with the vertical investment plan, it is impossible to apply the basic guidelines to investments of a horizontal character. This

approach hasn't shown to be useful in the examination of the recent evolution of FDI, since horizontal investments have been the most notable phenomena in industrialized nations in recent decades.

S. Lael Brainard has defined a further development of Dunning's theory, identifying the reasons for moving toward internationalization as a trade-off between the benefits of concentration and proximity; no longer more in differences in factor endowments. The proximity advantage comes from firm-level economies of scale, which means that any knowledge or expertise may be transferred to overseas affiliates, ensuring that businesses are closer to international markets. However, by depending on export processes to service foreign markets, the concentration advantage stems from plant-level economies of scale that make it more practical to concentrate production in a single site. Therefore, it is advised to make foreign direct investment where the benefits of being close outweigh those given by concentration.

According to a completely different idea, internationalization is the act of obtaining and developing unique resources that one can use to create their own competitive advantage. Three factors are identified by this model as determining factors of the process: resource linkage is the factor that drives the investor to travel abroad to establish connections with other businesses, which allows them to access resources and unique abilities that are unavailable in their native nation. The second determinant, resource leverage, on the other hand, describes a company's capacity to use its resources to establish connections with top players; if a company adopts this strategy, its skills and resources will develop far more quickly than if the company had grown solely within its own borders. Ultimately, the resource learning demonstrates how the potential to expand learning possibilities regarding, on the one hand, the specifics of global markets and, on the other, strategies and management tools, is an entrepreneurial driver behind the internationalization process. Mathews created such a model, which is also known as the LLL Framework.

Another line of doctrine, which dates back to the Scandinavian School, explores how an enterprise expands by putting forth the concept of evolutionary incremental38. Initially, the company operates in locations with similar cultures to its home market and uses limited resources, but as it gains traction, it expands and intensifies its operations—even internationally—in response to market demands. Based on the examined model, internationalization proceeds in an ever-expanding manner, involving the gradual allocation of resources and expertise on a global scale. The degree to which these two factors interact is determined by the enterprise's level of foreign presence development.

Once more, Charles Hill outlines in his paradigm the strategic factors that, in his opinion, drive the processes of production expansion overseas: on the one hand, the need for local adaptation, which entails the capacity to tailor supply to demand in various geographic markets; and on the other hand, the pressure to cut costs and the resulting increase in efficiency.

An ongoing evolutionary process that determines the fundamental causes for the implementation of these kinds of strategies is involved in the theorization of a model to act as

a guide for direct investors, foreign investors, the state, and public entities in implementing their respective strategies.

The management literature appears to have a particular preference for the development of the phenomenon under consideration. However, it is important to note that the topic is always examined from the investor's perspective and never with reference to the target firm. As such, one must question whether the advantage the latter gains does not lead to a disadvantage for the former. To answer this question, a thorough examination of the effects that foreign direct investment brings about is necessary in order to create a comprehensive picture that permits an objective assessment of the phenomenon.

1.10 FDI Trends and Patterns

Economic globalization requires foreign direct investment (FDI) as a crucial component. It encourages global labor division and assists businesses in creating global value chains (GVCs). FDI thus plays a role in the growing economic interdependence of nations and people.

1.10.1 Global FDI

In 2022, global foreign direct investment (FDI) had a significant decrease of 12%, amounting to $1.3 trillion. This loss followed a strong growth in 2021 and may be attributed mostly to various interconnected global issues, such as the conflict in Ukraine, increasing expenses for food and energy, and escalating public debt.

Most developed economies saw the downturn, with FDI dropping by 37% to $378 billion. Nonetheless, there was a modest 4% increase in investment flows to developing countries, with the majority of the funds going to a handful of significant emerging nations while the least developed countries experienced a decline.
Indeed, there was a notable 15% increase in the number of new investment projects in undeveloped areas in 2022. This growth was noted in several sectors and geographical regions.

There was a rise in project activity in businesses that face difficulties in managing their supply chains, such as electronics, semiconductors, automotive, and machinery. However, there was a decline in investment in areas related to the digital economy.

Global investment in the generation of renewable energy, specifically wind and solar power, also saw a surge, although at a slower pace compared to 2021, with a growth rate of 50% reaching 8%. Significantly, the number of stated ventures aimed at manufacturing batteries has tripled, surpassing $100 billion by 2022.

The report also highlights the progressive divestment of major oil corporations from their fossil fuel assets. These assets are being sold to smaller companies with less strict restrictions on transparency and to unlisted private equity groups. The yearly rate of these sales is approximately $15 billion.

Hence, alternative methods of negotiation are needed to ensure effective asset administration.

1.10.2 Global FDI Inflows

Capital given by a foreign direct investor to a foreign affiliate or capital received by a foreign direct investor from a foreign affiliate are both considered forms of **FDI inflows**. When viewed from the viewpoint of the other economy, FDI outflows correspond to the same flows.

The amount of $1.3 trillion in global foreign direct investment (FDI) flows decreased by 12.4% in 2022. The developed economies saw the most of this loss, with FDI dropping by 36.7% to $378 billion. On the other hand, foreign direct investment (FDI) into developing economies increased by 4.0% to a record-breaking $916 billion. But the increase wasn't consistent in all areas. After hitting a record-breaking $80 billion in 2021, foreign direct investment (FDI) flows to developing Africa fell by 43.5% to $45 billion in 2022. At $663 billion, FDI inflows into developing Asia and Oceania stayed constant. Furthermore, emerging America saw a notable boost in flows, up 51.2% to $208 billion. FDI decreased by 16.5% to $22 billion in the LDCs (UNCTAD, 2023).

As of 2022, the US economy continues to be the biggest recipient of foreign direct investment. China, Singapore, Hong Kong (China), and Brazil came next. Developing economies accounted for nine out of the top 20 host economies.

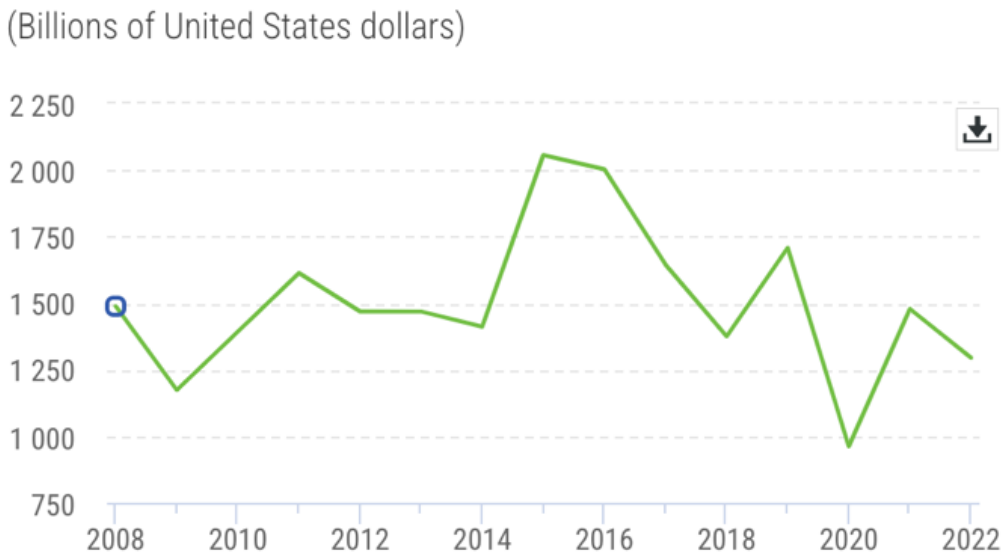

Figure 8 World Foreign Direct Investment Inflows

(Source: UNCTAD 2023)

1.10.3 Global FDI Outflows

FDI outflows from developed economies dropped to $1 trillion in 2022, a 17.1% reduction. To $459 billion, the value of FDI outflows from developing economies fell by 5.4%. Developing Asia and Oceania's flow rates decreased by 11.2% (UNCTAD, 2023).

The US and Japan were the top two economies in terms of FDI outflows in 2022. After the UK and Germany, China was the third-largest investor home economy.

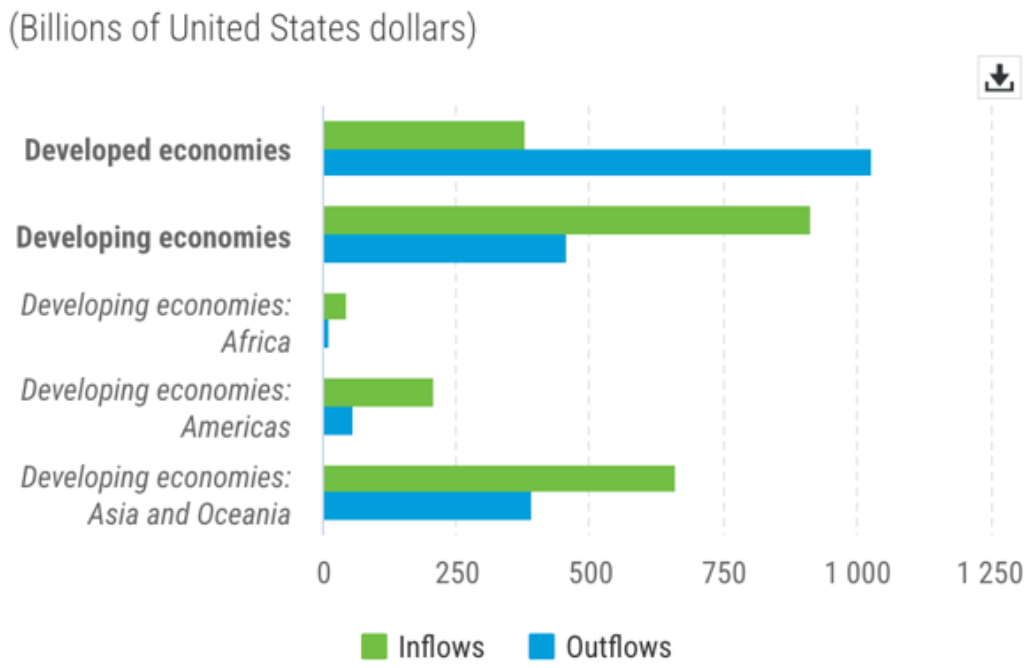

Figure 9 Foreign Direct Investment Inflows and Outflows, 2022

(Source: UNCTAD 2023)

1.10.4 Historical Trends

The decade that followed the collapse of the iron curtain at the start of the 1990s saw a gradual but steady rise in global FDI. Western multinational corporations experienced a surge in globalization and outsourcing during the 1990s, and foreign direct investment (FDI) in emerging nations with cheap labor costs, like China, was crucial to this process. Global FDI flows were dominated by established economies, with FDI from emerging nations having a very small impact on outflows but a distinctly larger impact on inflows because of outsourcing. When it comes to foreign direct investment (FDI) outflows, developing nations have also been catching up. In 2009, they made up just 20% of all FDI outflows worldwide, but by 2018, that percentage had risen to over 40%, nearly matching that of industrialized nations. However, one must remember that the "China factor" in particular has been the main cause of the outflow of foreign direct investment from developing nations: In 2018, more than 30% of these were from China. This percentage was significantly greater in previous years, but China's portion of foreign direct investment inflows has been steady at roughly 20% for the past few years.

The "Trump factor" appears to have had a comparable, albeit Ie, Impact on FDI from rich countries to that of the "China factor" on FDI from developing countries: The inflows and outflows of foreign direct investment from wealthy nations have decreased by half since Donald Trump assumed office in 2016. The United States, the largest home and host country of foreign direct investment worldwide, is largely to blame for this development: US foreign direct investment (FDI) outflows in 2018 were negative, meaning they were caused by disinvestments, while inflows had decreased by 55% from 2016.

While some American corporations may have moved some of their economic activity back home as a factor in their disinvestments abroad, the growth of foreign direct investment (FDI) inflows into the US indicates that President Trump has not succeeded in his widely publicized goal of bringing jobs back to the US. On the other hand, it seems that foreign businesses have made fewer investments in the US than they have historically, which has resulted in a very small number of new employments being generated. The nation that initiated the investment war, the United States of America, suffers the most from it, much like the trade war.

FDI is a vital component of the world economy. However, for businesses to boost their investment operations, they require a predictable and stable economic climate. Companies may hesitate, put off making decisions about investments, or decide not to make any at all if this requirement is not met.

Global insecurity has been on the rise in recent years due to the US's retreat from its position as the cornerstone of a rules-based international economic order, the impending Brexit, and the growing number of nations turning to protectionist trade and foreign direct investment policies. The worldwide FDI has suffered because of these trends. Given that the United States will hold its next presidential election in 2020 and that significant Brexit-related concerns have not yet been resolved, It Is probable that the current anxieties and hilarity around trade and Investment policy will persist. The likelihood that global FDI flows will rebound anytime soon is doubtful.

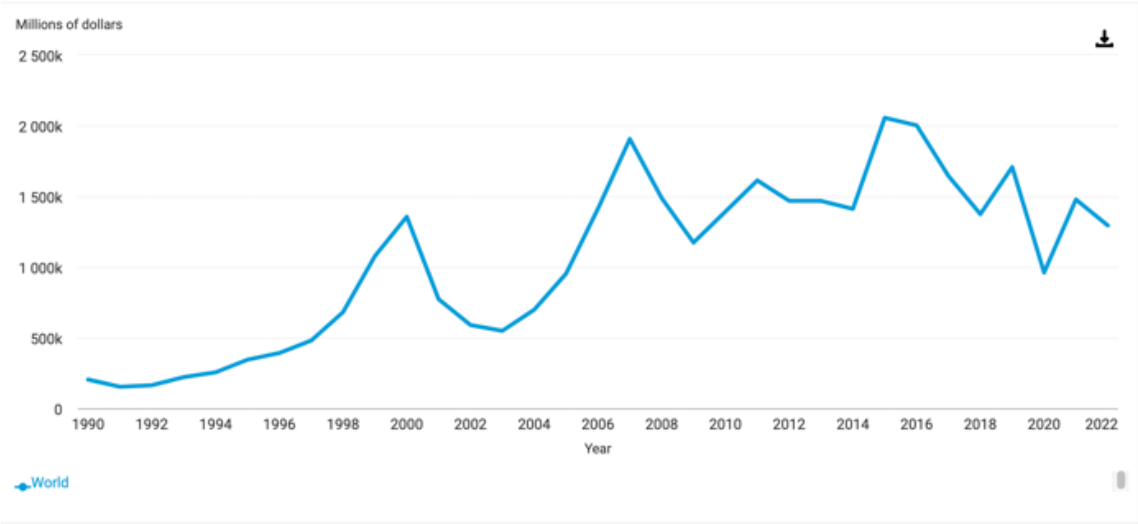

Figure 10 Global foreign direct investment flows over the last 30 years

(Source: UNCTAD 2023)

1.10.5 FDI trends in developing countries vs developed countries

Over the past three decades, the global economic landscape witnessed a riveting dance between developing and developed nations in the realm of Foreign Direct Investment (FDI). The story

begins in the early 1990s, a time when the chasm between these two categories seemed vast, with developed economies enjoying the lion's share of FDI due to their established markets and stability, while developing nations lingered on the periphery, cautiously enticing foreign investors with promises of untapped potential.

As the millennium unfolded, a seismic shift occurred. Developing countries took center stage, orchestrating an economic symphony that captured the attention of investors worldwide. With liberalized policies, burgeoning markets, and a hunger for growth, nations like China and India performed economic miracles, drawing in torrents of FDI that rivaled and often surpassed their developed counterparts. The narrative changed—FDI became a tale of burgeoning opportunities in the global South, a testament to the transformative power of economic reforms and market dynamism.

Entering the 2010s, the stage was set for a nuanced narrative. Developing nations maintained their allure, although the euphoric growth rates of the previous decade steadied. Challenges emerged—a volatile geopolitical climate, policy uncertainties, and occasional economic upheavals, creating ripples that affected the FDI influx. Yet, the allure of these markets persisted, resilient to fluctuations as they continued their march towards economic maturity.

In parallel, developed nations, once unchallenged bastions of FDI, found themselves navigating shifting tides. While still magnets for certain industries and technological innovations, they faced stiffer competition. The rise of emerging economies and their appetite for progress posed formidable challenges. Amidst economic downturns and the disruptive force of global events like the financial crisis and the pandemic, these economies held their ground, adapting and innovating to maintain their FDI appeal.

In the years leading up to 2023, the narrative remained intriguingly complex. Developing nations in regions like Southeast Asia, Latin America, and pockets of Africa continued their ascent, fueled by demographic advantages, evolving consumer markets, and strategic policy maneuvers. Meanwhile, developed nations, leveraging their technological prowess and stable ecosystems, redefined their FDI strategies, recalibrating to remain competitive in a dynamic global arena.

In this symphony of FDI, the tunes varied echoes of growth, harmonies of policy reforms, and crescendos of market potential. The tale of FDI trends between developing and developed countries, a saga spanning decades, embodies the ever-evolving nature of global economics—a testament to resilience, adaptation, and the relentless pursuit of progress.

2 Turkey

2.1 Turkey Overview

Turkey is strategically located between Europe and Asia, controls the entry to the Black Sea, and was formerly the center of the great Ottoman Empire. Kemal Ataturk established the modern republic in the 1920s and served as its President until his death in 1938. Ataturk was responsible for Turkey's secularization and modernization, including the removal of the veil for women, the adoption of surnames, and the transition from the Islamic to the Western calendar. The Civil Code of 1926 banned polygamy and granted women equal rights in divorce, custody, and inheritance. Turkey joined the United Nations (UN) in 1945 and NATO in 1952. Joining the European Union has been a long-held dream. Membership talks began in 2005 but have stalled due to major concerns about Turkey's human rights record. Kurds make up around one-fifth of the population. Kurdish separatists, who accuse the Turkish authorities of attempting to erase their cultural identity, have waged a guerrilla struggle since the 1980s.

Surrounded by varied physical units, Turkey stretches approximately 1,000 miles from west to east and 300 to 400 kilometers from north to south. To the north it has the Black Sea, and to the east it has Iran, Armenia, Azerbaijan, and Georgia. The southeast is bordered by Iraq and Syria, the south and west by the Mediterranean and Aegean Seas, and the northwest by Greece and Bulgaria. The coastline of the nation extends across the Mediterranean and the Aegean Seas, and it forms around three quarters of its overall boundary, which is almost 4,000 miles long.

Istanbul, being the biggest city in Turkey and its principal port, and Ankara, which serves as the capital, highlight the important administrative and economic functions that Turkey plays. Because of its location at the meeting point of Asia and Europe, Turkey has long served as an intermediary and a barrier between the two regions. This large landmass is mostly located in Asia and comprises Anatolia (Anadolu) and Asia Minor, with a tiny piece, Turkish Thrace (Trakya), located at the southeastern edge of Europe, being a remnant of a once-great Balkan empire.

The Bosporus, Sea of Marmara, and Dardanelles, together known as the Turkish straits, regulate the only marine route between the Black Sea and the Aegean, making them strategically important to Turkey's foreign policy. Disputes with Greece over maritime boundaries have persisted since World War II, and despite Turkey's long coastline, it only has authority over two islands—Gokçeada and Bozcaada—in the mostly Greek Aegean.

2.2 Historic Overview

From the Paleolithic age to the rise and fall of multiple civilizations to its current status as a modern nation, Turkey's history is a complex tapestry. Turkey was once home to prehistoric human settlements. Later, strong ancient civilizations such as the Hittites and Urartu emerged.

Greek colonization had a profound impact on the area, as did domination by the Persian and then Roman empires, which had a long-lasting cultural and economic influence.

With Constantinople as its capital, the Byzantine Empire was a significant center of Greek and Christian culture until it was overthrown by the Ottoman Turks in 1453. Following World War I, the Ottoman Empire, which had peaked during Suleiman the Magnificent in the 16th and 17th centuries, fell into disintegration as a result of a number of internal and foreign factors.

Mustafa Kemal Atatürk established the Republic of Turkey in 1923 and carried out extensive reforms to modernize and secularize the nation. Since then, Turkey has successfully negotiated a number of political and economic obstacles to establish itself as an important actor on the regional and international scene. Its history, which has been enhanced by the several civilizations that have thrived there, shows its function as a link between the East and the West.

2.3 Political Analysis

In the Middle East, there is a wave of revolution occurring, although it is uncertain which direction it will ultimately take. This is happening at a time when Western powers, including the United States, are facing an economic crisis. As a result, these powers are being forced to make significant withdrawals from different regions around the world. Turkey is increasingly motivated to reengage in the regional and international arena and assume a proactive and prominent role in a chaotic and unstable environment. Turkey finds itself torn between fully embracing its European character and succumbing to the admiration of the Arab Muslim world, which regards Turkey as the quintessential Islamic nation of the twenty-first century.

2.3.1 Important elements in Ozal and Anap's ascent

Turgot Ozal's arrival in Turkish politics in 1983 marked a departure from the previous policies of the Republic's first sixty years, which were based on Kemalist principles. These principles were initially outlined in Ataturk's extensive speech to the General Assembly in 1927 and later reaffirmed in the well-known "six arrows" program of 1931. The "six arrows" represent a balanced blend of corporatism and national populism, which are key principles of Kemalist philosophy. These concepts, namely:

1 nationalism,
2 populism,
3 republicanism,
4 statism,
5 secularism,
6 evolutionism,

were embraced by the People's Republican Party in 1931 and were subsequently integrated into the 1937 constitution, establishing the party-state system.

Following his initial appointment in 1979 to restore economic stability at a challenging moment in the nation's history, Ozal won the 1983 elections and took charge of the "Party of the Motherland" (Anap). The elections held after the military takeover in 1980 and the subsequent approval of the Constitution in 1982 were particularly historic, as they were the first elections under these circumstances. Despite a few changes, the Constitution is still in force today. In the next decade, Ozal's rise to power will have a crucial impact on bringing about a significant change in Turkey's international and domestic policy, which will be increasingly influenced by his decisions. Several factors, both internal and external to the country, played a key role in Ozal's success and are worth addressing briefly:

- Turkey faced significant isolation as a result of the Cypriot crisis in 1974, which led to the suspension of relations with both its American ally and Europe.
- The politically significant military coup in 1980 banned all traditional parties and their historical leaders, including Demirel, Ecevit, and Erbakan.
- Ozal's own identity was the determining factor. He was a businessman who had a strong religious and political background, specifically as a candidate of the Islamic party. Additionally, he had a deep admiration for liberalism and the United States, where he pursued his studies.
- The military dictatorship's acknowledgment of Ozal as a conservative politician who could uphold Turkish-Kemalist nationalism was also of great importance. Ozal's perspective on the military junta, which he regarded as crucial for reviving the economy, had great importance. In reality, it would have guaranteed the implementation of necessary reforms to uphold national stability.

Anap secured victory in the elections (45.15%) by uniting the four main political ideologies of the 1970s: Islamic fundamentalism, the radical right, the left, and the right. The middle class, who would have gained advantages from the new government's economic policies, particularly favored this tactic. It started a process that will be crucial for the rise of the AKP in the 2000s. Undoubtedly, implementing further reforms will be advantageous for a newly emerging middle class that aligns itself more closely with the religious and mystical practices of the Sufi brotherhoods, to which both Ozal and Erdogan were affiliated, and less closely with the Kemalist establishment. This middle class will primarily be concentrated in the Anatolian provinces rather than Istanbul.

2.3.2 The updated Turkish identity in light of diversity

Ozal promptly recognized the need for a fresh conception of Turkish identity to effectively execute his goals, as the Kemalist identity had become unsuitable in light of the country's social and geopolitical changes. Kemal asserts that the Turkish identity is defined by a common language and territory, and it rejects the concept of diversity that was prominent in the Ottoman Empire.

The promotion of assimilationist nationalism during Kemalism has led to a greater prevalence of ethnic prejudice compared to the Ottoman Empire. As a consequence of this policy, a rupture

with the Kurdish community became inevitable, leading to one of the most delicate and tumultuous internal political confrontations in the history of the country.

Ozal recognized the necessity for Turkey to establish a fresh national identity that acknowledged and valued the diverse ethnic, cultural, religious, linguistic, and political characteristics inside the nation. Consequently, the identity acquired more characteristics associated with the Ottoman Empire rather than just Turkish, enabling it to encompass a broader spectrum of ethnicities. Ottomanism is a sort of identity that should have been established after the reforms known as "Tanzimat" (1839-1876) by the bureaucratic elite who were directing the modernization of the Ottoman Empire. This philosophy emerged from a key principle of the Tanzimat process, which advocated for equal status for all citizens inside the Empire. The concept was completely realized by the enactment of the Ottoman citizenship law in 1869. Even in its conceptual stage, when integrated with other institutional changes of the day, this idea began to provide the groundwork for the initial, cautious development of an identity that disregarded individual racial and religious affiliations.
Ozal's admiration for the United States, which he viewed as an exemplary model for modern Turkey, also contributed to his appeal to Ottomanism. Ozal states that the political structures of the two nations were historically comparable, enabling different cultures to peacefully coexist and maintain their religious customs.

The administration could no longer underestimate the significance of the presence of immigrants from Central Asia and the Middle East, who played a crucial role in both the Ottoman Empire and the Turkish Republic. The necessity of an appealing pole led to the assimilation of numerous ethnically diverse groups that were markedly distinct from each other. The diverse ethnic communities were compelled to assimilate into Turkish identity through the imposition of restrictions on their ability to form communities or engage in political representation. However, their continuous growth was not halted, leading to the pressure groups in the 1980s.

Upon learning about this notable progress, Ozal saw the importance of modifying national policies to better meet the needs of diverse ethnic communities and their advocacy organizations. Ozal's enhanced comprehension had a significant impact on his revised approach to foreign policy, aiming to cultivate enhanced and progressive relationships with neighboring countries and regions that were previously under Ottoman control. The request from various ethnic interest groups for a proactive strategy highlighted the urgency; Turkey had to respond to global influences and could not disregard international affairs.

Ozal's "Turkish" civilization differed significantly from the prior societies that emerged in the decades following the collapse of the Ottoman Empire. He did not endorse the irredentist perspectives of Enver Pasha and the Young Turks, nor did he embrace the isolationist perspectives of Ataturk, who regarded anything beyond Anatolia as potentially perilous.

Ataturk envisioned the establishment of a secular and Westernized society in Turkey, aiming to situate the country in Europe. Ozal's method was completely different from this concept. Ozal's concept of "Turchism" was culturally focused, with the goal of integrating the country's minority ethnic groups into a broader conception of "Turks" that was reminiscent of the Ottoman heritage, rather than engaging in conflict with them. His aspiration was to create a society that was characterized by democracy, Islam, liberalism, and capitalism, all inside a state that embraced a variety of languages, cultures, and religions. This represented a significant deviation from Ataturk's initial concept of a solitary focus without religious influence.

Due to its contradiction with two fundamental principles of Kemalism, namely nationalism (Turkish identity) and ethno-populism (Turkish unity), the implementation of this revolutionary philosophy was a delicate matter.

2.3.3 Ozal's updated foreign strategy

The emergence of Neo-Ottoman foreign policy, referred to as "Ozalism," was a robust reaction to Kemalism's policy of isolationism and the belief that the Turkish Republic had the potential to regain its influential role in the global economy. Ozal had the belief that he needed to adopt this technique due to Turkey's economic adversity and seclusion. The early years of his reign were marked by the endeavor to reintegrate Turkey into the global framework, in light of the challenges faced with both Europe and the United States. Initially, international relations were guided by strategic principles. However, under Ozal's leadership, decisions began to be made with a greater focus on protecting Turkish economic interests on a global scale.

Ozal gradually attempted to reconcile his conflicts with both Europe and the United States, while also contemplating other alliances and becoming increasingly receptive to forging greater connections with neighboring states. Turkey's rapid economic recovery led to a significant increase in its relations with the Balkan nations, the Black Sea region, and the Middle East. The increase in Turkish oil consumption had a vital role in the Middle East. Consequently, in order to achieve equilibrium between imports and exports, the trade balance had to be adjusted. This resulted in Turkey expanding its commercial activities and making investments in new countries such as Libya, which eventually became Turkey's primary market, as well as Saudi Arabia and Iraq during Saddam Hussein's regime. Another notable signal was the change in policy toward the Israeli-Palestinian issue, since there was a growing endorsement of the PLO.

Ozal confronted a persistent diplomatic problem on the Balkan front with Bulgaria, where a strategy of heightened assimilation and discrimination against the sizable Turkish population was being enforced, leading to their forced displacement. The new Turkish foreign policy, however, was also shaped by external factors, as the global and regional characteristics of the Cold War era continued to intertwine. The Iranian revolution and the Soviet Union's entry into Afghanistan led to a new period of improved relations with the United States. Additionally, Ozal's admiration for President Reagan, whom he saw as an expert in economic liberalism, influenced this approach. Washington's choices were progressively exerting influence on

Turkey's decisions regarding foreign policy. In the next years, Ankara will showcase its ability to effectively leverage the diverse shifts in regional and global geopolitical frameworks. The proof for this assertion lies in its capacity to exploit Russia's political and geographical vulnerabilities in the early 1990s, therefore establishing its own autonomy in the former Soviet countries of Central Asia. A parallel argument may be made for the 2000s, after the conflicts in Afghanistan and Iraq, during which Turkey managed to establish its authority in new territories while the United States' control in the region gradually diminished.

2.3.4 The advent of the AKP and the new political Islamism

The electoral victory of the Justice and Development Party (AKP) in November 2002 marked a significant change in Turkish politics, setting it apart from prior periods. The Turkish case stands out due to its capacity to form a political party that merges the Turkish Islamic tradition and the Milli Gorus movement of Erbakan, while effectively incorporating Islam with the principles of free market and openness to the Western world, specifically the European Union.

The two leaders of the AKP, President Gul and Prime Minister Erdogan, effectively justified a departure from both Kemalism and conventional political Islamism by experiencing a rapid process of maturation influenced by internal and foreign factors. The AKP has effectively established itself as a "democratic conservative" platform by taking advantage of the economic policies implemented by the Ozal government. This has enabled them to efficiently meet the needs of the developing entrepreneurial upper class in the Anatolian regions, namely the Anatolian D.C. Tigris. Despite recognizing the detrimental impacts of colonization and Western imperialism, the developing middle class sees opportunities for increased freedom in other domains, such as religion, within democratic institutions throughout Europe.

The military's grip on power has weakened even further due to the rise of a political party, although a moderate one, that has clear Islamic origins. Since the initial republican coup in 1960, the Turkish army has always safeguarded and preserved its position by citing potential domestic dangers to the nation. It has effectively positioned itself as the authoritative protector and explainer of Kemalist concepts and values. The promotion of an Islamic State by Political Islam and the expression of Kurdish separatist aspirations have consistently been recognized as the main impediments to national cohesion. The military, in its capacity as the National Security Council, is constitutionally obligated to be under the command of the armed services' leaders and has the formal responsibility of safeguarding national security.

During the early 21st century, the declining presence of these two threats contributed to a gradual but slow decline in the army's popularity, along with a widespread public dissatisfaction with the Kemalist ideology. The military had a sense of dissatisfaction, which was subsequently accompanied by two major political setbacks. The rise of the AKP as a prominent political party resulted in the election of Gul as the first President of the Republic with an Islamic background, which is the most significant consequence of this political progression.

During its early years in power, the AKP effectively utilized the existing push for EU membership to alleviate public concerns about Western Islamic influences and accelerate internal changes in Turkey. The inclusion of "harmonisation packages" in EU legislation has resulted in a notable rise in economic liberalization, a reduction in direct governmental control and policy, and a decrease in the military's involvement.

The AKP intends to dismantle the bureaucratic institutions that have historically protected the Kemalist State and its influential establishment by adopting systems comparable to those of European democracies. The latest decisions made by the AKP have received significant endorsement from the majority of the population. They believe that the party has achieved substantial and unexpected economic growth, propelling Turkey's economy to the 16th rank globally in less than ten years, while also guaranteeing lasting political stability.

It is important to emphasize that the global backdrop has played a pivotal role in the implementation of the political program put forward by the AKP. Recent years have seen emerging economies that have effectively integrated into the global economy reaping substantial benefits from the economic advancements achieved in the last decade. Furthermore, by fostering positive connections with the affluent members of the economy, the government's economic accomplishments have empowered them to execute a diverse array of endeavors with the goal of enhancing the living conditions of the most marginalized persons in society. This has resulted in a decrease in two potentially unstable components of the Turkish social balance.

2.4 Economic Analysis

The economic history of the Republic of Turkey can be divided into four distinct eras or phases. From 1923 to 1929, the development policy of the initial period focused heavily on private accumulation. In contrast, the second era (1930-1949) saw the development of a program that relied on state accumulation. Furthermore, during the third era, spanning from 1950 to 1980, the government implemented crucial protectionist measures that restricted imports. Starting in 1981, free trade was reinstated in all industries.

2.4.1 First Era (1923-1929)

Since 1820 Turkey was one of the developing countries which developed more. However, this growth was comparable with what happened in the others country of the world. Actually, since 1923 the economy of Turkey became one of the most considerable complexes and it served a lot of industries such as agricultural industrial and service products which were bot imported and exported. The new government policies were made this possible and, indeed, this development was characterized by an average annual increase of 6%

The Turkish economy was underdeveloped at the time of the Ottoman Empire's fall during World War I and the Republic's subsequent establishment. The country's industrial base was weak, and the few factories that produced staples like flour and sugar were subject to foreign

control as a result of capitulations. Agriculture also relied on antiquated methods and subpar livestock.
As said before, October 29, 1923, the Turkish Republic was founded. Since then, the Economy Minister Mahmut Esat Bozkurt decided to follow what is called “the new Turkish economy” and he was the initiator of the fundamental economic policies of the Turkish government:

- Nationalism;
- Liberalism;
- coexistence of public and private economies;
- import restrictions ;
- protection of domestic market;
- emphasis on creditor nations and dominant industries.

In this period, foreign money exerted a substantial influence on the national economy, particularly in areas such as mining, railways, and banking. In 1921, Mustafa Kemal Atatürk, the inaugural president of the nation, implemented a policy that let foreign enterprises and investors to engage in financial ventures in Turkey, on the condition that they complied with the existing legal rules.

From 1923 to 1926, agricultural production in Turkey had a significant increase of 87%, reaching levels that had not been observed since the conflict. During the period from 1923 to 1929, the industry and services sectors experienced an annual growth rate of over 9%. However, even with this expansion, these industries still represented a very modest fraction of the whole economy by the end of the decade. In 1927, the Ottoman Banks, which were under the supervision of the Anglo-French, were responsible for providing around 50% of Turkey's production credit and had the power to issue currency notes.

2.4.2 Second Era (1930-1949)

The Central Bank of the Republic of Turkey was founded by the Turkish government in 1930 and was in charge of setting monetary policies and controlling the amount of money in circulation. Concurrently, it regained the authority to issue currency and acquired overseas businesses, as well as ports and railroads run by foreign investors. The national economy's level of nationalization was greatly enhanced.

To expedite the progress of industrialization, the Turkish government in the 1930s relinquished its comparatively moderate liberal economic policies and instead embraced radical nationalist ones also aggressively developed the state-owned economy, emphasized the idea that industrial development should come first, and increased government intervention and investment in industrial production. The nationalist policies of Turkey in the early 20th century were mostly a reaction to the worldwide economic depression resulting from the Western economic crisis of 1929–1933. In order to mitigate the economic consequences and promote recovery, the Turkish government embraced a concept of statism in the early 1930s, actively engaging in the

economy. Despite experiencing a temporary decline during the worst phase of the crisis, the economy finally rebounded and achieved an annual growth rate of 6% from 1935 to 1939. This was mostly due to the implementation of government policies and internal initiatives aimed at rejuvenating important sectors.
However, the economic landscape experienced a significant change in the 1940s due to the geopolitical circumstances arising from World War II. Turkey's decision to maintain armed neutrality had a substantial effect on its economy, leading to increased military expenditures and strict restrictions on international trade. The absence of engagement in global trade networks, coupled with the focus on military readiness, resulted in a period of economic stagnation throughout the decade. The constraints on international trade during this era emphasized the challenges of sustaining economic growth in the face of prolonged geopolitical seclusion.

2.4.3 Third Era (1950 and 1980)

The Turkish government promoted liberal economic policies in the 1950s, urged domestic and foreign investors to engage in the industrial sector, and formed the Turkish Industrial Development Bank to lend money to private investors.

The Foreign Investment Act (Act No. 6224), which was enacted by the Turkish government in 1954, opened up the domestic market to foreign investment and offered numerous preferential conditions to foreign companies. The modern industrial sector has consistently been a focal point for foreign investors, especially those from the United States, West Germany, France, and Italy. Turkey has experienced periodic economic disruptions roughly every ten years since 1950, with the most serious crisis coming in the late 1970s. Usually sparked by a period of fast expansion driven by the sector, these disruptions frequently resulted in substantial increases in imports, leading to a crisis in the balance of payments.

To address these crises, the International Monetary Fund (IMF) offered suggestions for the adoption of austerity measures. These strategies often included purposefully devaluing the Turkish currency and implementing policies to restrict the domestic demand for imported goods. These measures successfully accomplished the objective of stabilizing Turkey's external accounts, thereby reinstating the confidence of international creditors and resulting in the recommencement of their financial support to the country. The cyclical pattern of growth, instability, and recovery has been a prominent feature of Turkey's economic history since 1950, highlighting the challenges of managing a rapidly developing industrial economy in a globalized world.

Both the quantity and size of private businesses have grown significantly over this time. Based on available data, the number of private businesses employing over ten people increased from 660 in 1951 to 1,160 in 1953 and 5,300 in 1960. The average number of workers in the private sector rose from 25 to 33 at the same period.

During the 1960s, the Turkish government implemented a number of beneficial policies, such as tax breaks for private business owners investing in developing industries, preferential tariffs on imported machinery, and low-interest loans from private companies. These policies encouraged the growth of private enterprises, which in turn led to an increase in their production and, as a result, a change in their industrial structure.
The 1961 constitution places a strong emphasis on the cooperative growth of the state-owned and private economies, the natural union of the market and planned economies, and the state's dominant role in the financial sector. The majority of investments in the state-owned economy go toward large, capital- and technology-intensive businesses including those in the chemical and metallurgical industries, infrastructure development, and metallurgy. The majority of small and medium-sized businesses in the private economy's investment sector are those that manufacture everyday consumer goods like textiles and food processing.

During this time, there was an equal division of state-owned and private industries and a protracted coexistence of a mixed economic structure between them. State-owned enterprises were few in number but vast in scope, whereas privately held businesses were numerous but limited in scope. State-owned businesses benefited from advantages in capital, technology, and production scale, whereas private businesses outperformed state-owned businesses in terms of production efficiency and market competitiveness. Compared to the private sectors, national businesses had a lower input-output ratio. The state-owned organizations' size and their share of the overall industrial output value demonstrated a tendency of progressive decline, whereas the private companies' size and share of the total industrial output value exhibited a growing trend. Nonetheless, Turkey's industrial production had long been controlled by the state sector.

Turkey's economy may have been experiencing its greatest crisis since the collapse of the Ottoman Empire by the late 1970s. Due to their inability to respond appropriately to the dramatic spike in global oil prices in 1973–1974, Turkish authorities were forced to fund their deficits with short-term loans from international lenders. By 1979, the sector was operating at just half capacity, unemployment had grown to 15%, inflation had hit triple digits, and the government couldn't even afford to pay the interest on its foreign loans. It appeared that Turkey's import-substitution strategy for development would need to undergo significant adjustments before it could continue to grow without a crisis. Many observers questioned Turkish officials' capacity to implement the needed reforms.

	Actual				Predicted[b]			
	1953	1963	1973	1978	1953	1963	1973	1978
A. Accumulation (% of GDP)								
1. Investment								
a. Savings	11.5	12.0	14.8	17.8	16.3	18.0	19.6	20.5
b. Gross investment	14.8	15.6	18.3	21.6	18.0	19.6	21.0	21.8
c. Capital inflow[c]	3.3	3.6	3.5	3.8	2.8	1.6	1.4	1.3
2. Government Revenue								
a. Government[d]	16.0	16.6	21.1	24.4	15.6	16.8	18.7	19.7
b. Tax[d]	12.6	13.9	18.5	20.2	15.0	15.8	17.8	18.6
B. Allocation (% of GDP)								
1. Domestic demand								
a. Gross investment	14.8	15.6	18.3	21.6	18.0	19.6	21.0	21.8
b. Public consumption	11.0	11.5	14.1	12.7	12.2	13.6	13.7	13.8
c. Private consumption	77.6	76.6	71.2	69.4	71.5	70.1	68.9	68.2
d. Food consumption	41.4	38.9	28.9	27.4	33.9	30.4	26.7	25.1
2. Production (value added at factor cost)								
a. Primary	45.9	40.1	29.7	26.9	34.4	30.2	24.5	22.0
b. Industry[e]	12.8	19.2	22.9	25.0	22.6	23.5	26.8	28.4
c. Utilities	5.7	8.8	10.7	11.0	6.2	7.1	7.5	7.8
d. Services	35.6	31.8	25.7	37.1	36.2	38.8	40.5	41.2
3. Trade								
a. Imports	11.3	9.6	11.4	9.9	17.0	16.2	15.6	15.3
b. Exports	8.0	6.0	7.9	6.1	17.3	15.2	14.8	14.6
c. Primary exports	7.4	4.0	4.1	3.3	10.8	9.7	8.3	7.6
d. Manufacturing exports	0.6	1.0	1.8	1.2	4.4	4.8	6.0	6.6
e. Service exports	—	1.0	2.0	1.6				
C. Labor allocation								
1. % Share of:								
a. Primary labor	79.2	77.6	64.8	60.9	56.9	53.8	47.2	44.9
b. Industry labor	7.4	10.1	13.6	15.3	15.8	17.9	21.7	22.9
c. Utilities & service labor	13.4	12.3	21.6	23.8	17.4	28.2	30.8	31.9

Table 3Resource Accumulation and Allocational Processes,1953-78 (Cellsun (1983))

(Source: Akyuz and Ersel 1984, annex 2)

	1970	1975	1980
A. Total assets of financial institutions (% of GNP)	76.7	80.1	66.6
B. Distribution of assets			
1. Monetary system (Central bank and deposit banks)	68.4	73.3	84.7
2. Investment banks	12.4	11.5	6.3
3. Social insurance institutions	14.4	11.8	6.4
4. Other institutions	4.8	3.4	2.6
Total	100.0	100.0	100.0
C. Net issues of domestic nonfinancial (real sectors)			
1. Total (% of GNP)	59.7	57.8	47.8
2. By sector (%)			
a. Public sector	48.2	42.9	55.1
Administration	27.3	23.6	31.8
Enterprises	20.9	19.3	23.3
b. Private firms	37.3	47.6	37.3
c. Households and others[a]	14.5	9.5	7.6
Total	100.0	100.0	100.0
3. By type (%)			
a. Equities	8.9	11.2	6.9
b. Debt issue			
Bonds	11.3	8.6	8.6
Nonbonds[b]	79.8	80.2	86.6
Total	100.0	100.0	100.0
4. Held by (%)			
a. Financial system	87.1	83.9	85.8
b. Monetary system	57.0	59.7	71.1

Table 4 Turkey's Financial System, 1970-80

(Sourc; Akyuz 1984, tables 4.1 and 4.4)

2.4.4 Forth Era (1980s)

The Turkish government gave up on the import-important industrial development model in the 1980s and developed new strategies for economic development. They also established a free trade zone, expanded the market economy, encouraged private investment, and highlighted the competitiveness of the global market in the context of globalization. The economic paradigm that is focused on exports has developed throughout time. The Demirel administration unveiled a new economic reform agenda in January 1980, giving up on the industrialization strategy of inward-looking import substitution. It also reduced direct government intervention, lowered import tariffs, liberalized economic policies, and developed export-oriented and market-adjusted policies. An important turning point in the evolution of Turkey's economic model has been its economic strategy.

In addition, as mentioned before, Turgutz Özal was designated as the economic affairs deputy prime minister. When Özal's economic recovery plan was first put into action, a year after the military takeover, the inflation rate dropped from 140% to 35%. The equilibrium between the government's budgetary revenues and expenditures was gradually achieved.

Following his election as Prime Minister in 1983, Özal introduced a robust set of economic reforms with the objective of rejuvenating Turkey's economy. The policy involved devaluing the currency, increasing interest rates, and enforcing wage limits in order to restrain inflation. Özal prioritized improving the competitiveness of exports, attracting foreign investment, and promoting private sector investment by relaxing currency limitations. These policies were implemented as part of a comprehensive initiative to enhance fiscal management, augment government revenue and expenditure efficiency, and mitigate the trade imbalance.

Furthermore, Özal's administration made a firm commitment to the modernization and privatization of state-owned firms, in addition to the aforementioned economic reforms. Commencing in 1984, the government gradually eliminated the special status and subsidies that were previously provided to state-owned companies. It promoted equity between the public and private sectors through the sale of securities and stocks of state-owned firms to the public, eliminating obstacles to private investment, and actively encouraging private sector involvement. This transition not only promoted equitable competition but also sought to revitalize the whole economic environment by incorporating more dynamic and efficient corporate methods.

Özal's economic policy, implemented during his time in power and continued following his return to the position of Prime Minister in November 1983, sought to fundamentally change Turkey's economic environment. His objective was to transition the economy away from the post-war pattern of alternating periods of fast expansion and contraction, marked by swift growth followed by deflation, towards a more steady and sustainable growth model driven by exports. This move entailed transitioning from import-substitution strategies to promoting exports as a means to produce the required foreign cash for financing imports.

To accomplish these goals, several strategies were utilized and, as written before, some of the were: depreciating the value of the Turkish lira, implementing adaptable exchange rates, upholding favorable real interest rates, and enforcing stringent oversight of the money supply and credit. In addition, the administration led by Özal implemented a series of measures including the reduction of subsidies, the decrease in prices set by state-owned companies, the restructuring of the tax system, and the aggressive encouragement of foreign investment.

Özal first departed from the administration in July 1982, and during his absence, a number of his policies were suspended. Nevertheless, his reinstatement as Prime Minister resulted in a revitalized effort to promote economic reform. The focus of these endeavors was to disrupt the deeply ingrained cycles of economic volatility and establish Turkey on a trajectory of enduring economic progress.

The economic liberalization measures implemented by Özal had a substantial impact on Turkey's financial situation. As a result, the country was able to recover strongly from its balance of payments problem and regain access to foreign capital markets for borrowing. This, in turn, stimulated economic growth. From 1979 to 1985, Turkey had a significant increase in its merchandise exports, rising from US$2.3 billion to US$8.3 billion. While there was a rise in merchandise imports over this period, from US$4.8 billion to US$11.2 billion, the pace of increase was not as high as that of exports. As a result, the trade imbalance decreased and steadied at around US$2.5 billion.
In the late 1970s and early 1980s, Turkey enacted a stabilization program which effectively curtailed governmental expenditure, resulting in a substantial economic downturn. In 1979, the real gross national product decreased by 1.5%, and in 1980, it further declined by 1.3%. The economic recession had a significant negative effect on both the manufacturing and services industries. Manufacturing operations were only able to utilize approximately 50% of their overall capacity due to the decrease in income.

Nevertheless, when the limitations on foreign payments alleviated, the economy started to rebound vigorously. Between 1981 and 1985, the real Gross Domestic Product (GDP) experienced an annual growth rate of 3%, principally due to a significant revival in the manufacturing industry. During this period, the industrial sector effectively utilized its previously untapped industrial potential, resulting in a remarkable average annual output growth rate of 9.1%. The sector's efficiency was enhanced by implementing stringent regulations on workers' wages and activities.
In the mid-1980s, there was a noticeable increase in foreign capital inflows, albeit the amount was relatively minor due to the lack of foreign investment in the previous decade. Furthermore, Turkey's improved economic standing has allowed it to secure loans from global financial markets, marking a notable shift from the late 1970s when the country relied solely on the IMF and other government creditors for financial aid.

The depreciation of the Turkish lira was essential in bolstering Turkey's economic competitiveness on the international level. Due to these economic adjustments, the exports of manufactured goods had an average annual growth rate of 4.5% during the mid-1980s. This

was a notable improvement compared to the economic difficulties faced in the late 1970s and early 1980s.

Although Turkey saw a swift economic recovery and made progress in balancing its payments, it, nevertheless, encountered substantial obstacles in the form of unemployment and inflation, which persisted as major concerns for policymakers. At first, the official unemployment rate decreased from 15% in 1979 to 11% in 1980, indicating a certain level of initial achievement in the creation of jobs. Nevertheless, the unemployment rate experienced a further increase to 13% by 1985, primarily as a result of the swift expansion of the labor force.

Regarding inflation, there was a brief respite in 1981-1982 when inflation rates decreased to approximately 25%. However, this progress was brief as inflation rapidly increased, exceeding 30% in 1983 and surging past 40% by 1984. Despite a little decline in inflation between the years 1985 and 1986, the persistence of high inflation remained a significant issue for economic authorities, making it difficult to stabilize the economy and sustain growth.

Finally, the introduction of new economic policies in the 1980s greatly expedited the growth of the Turkish economy. The growth rates throughout this decade were remarkable, with the GDP experiencing a growth of 3.3% in 1983, which then rose to 5.1% in 1985, and ultimately reached an impressive 7.5% in 1987. The trend of strong economic development persisted throughout the 1990s, although it varied in intensity. During the 1990s, there was a significant and widespread economic growth, with just a few instances of slower progress. The economy experienced a significant growth of 9.4% in 1990 and, after various fluctuation, it increased by 8% in 1997. This time, particularly in comparison to the earlier years of the 1980s, emphasized the long-lasting influence and achievement of the economic policies implemented in the previous decade.

2.4.5 Çiller years

Following a deficit of 17% of GDP in the first quarter of 1994, Çiller managed to achieve a slight budget surplus in the second quarter, mostly as a result of increased tax revenues. Nevertheless, tax revenues experienced a drop as a consequence of a decrease in government spending, a significant decrease in company confidence, and the subsequent decline in economic activity. Furthermore, due to a fiscal crisis, there was a 5% decline in real GDP in 1994.

The introduction of the new economic strategy has resulted in a sharp rise in import and export activity. The structure of export commodities has changed significantly along with the increase of import and export commerce; the export volume of industrial products has continued to climb, which is a notable occurrence in the fast development of the export-oriented economy in the 1990s.

Turkey's exports in 1997 reached a total value of US$26.2 billion, with agricultural items accounting for 20.8% and industrial products for 74.9% of this sum. This was a substantial change from 1990, when the country's exports were assessed at $13 billion. In that particular year, agricultural items were 25.5% of the overall exports, and industrial products comprised 67.9%. The data suggests that there has been a shift towards a higher dependence on industrial exports in Turkey's export economy during the past decade, indicating a broadening and development of the country's export sector.

2.4.6 Erdoğan years

Turkey's economy has thrived in the twenty-first century as a result of a protracted period of consistent growth that was significantly higher than the 1990s average. Due to an economic boom in the 2000s, it has grown to be one of the world's developing economies and one of the fastest-growing nations (as mentioned before it became in the 16th ranking in 10 years). It has had a strong industrial foundation. Furthermore, Turkey's economy was doing rather well even during the global financial crisis in 2008. In line with the new economic plan, the Turkish government has created a number of macroeconomic policies. It has also collaborated with the International Monetary Fund, used the new government structure, and reduced unemployment. These actions have increased life expectancy and raised education levels, among other positive outcomes. From the early 2000s until 2018, Turkey's economy underwent significant expansion, with an average annual growth rate of 5.4%. Turkey saw significant economic growth throughout this period, making it one of the fastest-growing nations.

The AKP government played a crucial role in driving this economic boom through the implementation of structural reforms. These reforms primarily aimed at deregulating important industries, privatizing state-owned firms, and enhancing monetary and fiscal policy, as written before. These modifications not only stimulated expansion but also effectively decreased inflation from a rate in the tens to a rate in the units, so augmenting the nation's appeal for foreign direct investment.

The strategic positioning of Turkey at the intersection of Europe, Asia, and the Middle East has played a crucial role in establishing its geopolitical strategy and economic importance. Due to its strategic location as a prominent center for commerce and investment, Turkey enjoys distinct benefits, but it is also susceptible to possible economic instability. The country's participation in prominent international organizations such as the European Union (of which it is a candidate), NATO, the G20, and the Organization for Economic Cooperation and Development highlights its extensive global integration and influence.

This post will analyze the significant factors and advancements that have influenced the Turkish economy from 2003 to 2023, offering an understanding of the challenges involved in overseeing a swiftly expanding economy in a strategically important geographical position

Turkey's economy has experienced substantial changes during the last twenty years, characterized by a notable shift in the structure of its Gross Domestic Product (GDP). The agricultural sector's contribution to the Gross Domestic Product (GDP) has declined from 27% to 8%, while the industrial and service sectors have seen an increase to 31% and 61% respectively. Turkey's transformation has established it as a leading manufacturer of electronics, textiles, and autos, and has significantly enhanced the travel and tourist industry's impact on the country's GDP. Nevertheless, the economy's dependence on a limited number of crucial sectors has rendered it more susceptible to external disruptions, as seen by the consequences of the COVID-19 pandemic and the failed coup attempt in 2016.

This country has consistently faced the problem of inflation, with rates varying from 6% to 25% over the past two decades. The depreciation of the Turkish lira (the biggest problem of Turkey, as analyzed before), which has been impacted by external causes such as volatility in oil prices and global trade conflicts, has significantly contributed to the rise in inflation. The currency has experienced a substantial devaluation versus prominent currencies, intensifying foreign debt and diminishing the buying power of Turkish residents.

The Turkish Statistical Institute's economic data reveals recent difficulties, with a 2.4% decrease in GDP for the fourth quarter of 2017, following a 1.6% reduction in the third quarter. This indicates that the economy has contracted for two consecutive quarters. The decline in relations with the United States has worsened the exchange rate problem, resulting in a 30% decrease in the value of the Turkish lira compared to the US dollar during the past year. The devaluation has significantly raised the expense of settling corporate liabilities, leading to the insolvency of certain companies. In addition, Turkey is experiencing significant inflationary pressures, as evidenced by the consumer price index reaching its highest level in 15 years in October 2018, with a year-over-year increase of 25%.

2.5 Regional Analysis

Turkey's diverse landscape is divided into seven distinct geographical regions, each with its own unique characteristics and contributions to the nation's identity:

7 Eastern Anatolia Region
8 Central Anatolia Region
9 Black Sea Region
10 Mediterranean Region
11 Aegean Region
12 Marmara Region
13 Southeastern Anatolia Region

Figure 11 Geographical Regions of Turkey

2.5.1. East Anatolia Region

The Eastern Anatolia Region in Turkey has the biggest land area and, simultaneously, has the lowest population density. This variance contributes to the region's unique cultural fabric. The area is characterized by elevated plateaus and mountain ranges. In contrast, the region is renowned for its remarkable physiographic features, such as Mount Ararat, which is the highest peak in Turkey. According to tradition, Mount Ararat is believed to be the ultimate resting place of Noah's Ark. The area's harsh continental climate, marked by scorching summers and frigid winters, is mostly attributed to the rugged geography of the region. Given the challenging terrain and severe weather conditions that restrict, agricultural growth and animal production have been the defining features of the local economy. This region is especially renowned for being the primary apricot producer in Malatya, Turkey's most advanced province in terms of industry. Moreover, the Eastern Anatolia region boasts a significant abundance of mineral diversity and reserves. Nevertheless, East Anatolia Region is heavily affected by high unemployment rates and severe winters, which frequently isolate residents of small communities for extended periods of time. Indeed, during the data analysis it will be discovered that one subregion (Ağrı Subregion) was not subjected by FDI-type investment between 2011 and 2018.

The region is home to several ethnic groups such as the Kurds, Turks, and Armenians, each with distinct cultures, dialects, and religious practices. Contemplations on a history that is intricately woven together like a patchwork. Prominent historical landmarks in the region include the medieval city of Ani and Ishak Pasha Palace, which have connections to ancient empires and the Silk Road.

Figure 12 East Anatolia Region

(Source: https://www.allaboutturkey.com/regions.html)

2.5.2 Southeastern Anatolia Region

The Southeastern Anatolia region of Turkey is characterized by the beautiful plains of the Tigris and Euphrates rivers. It is known for its cultural and historical significance, as it has been home to several civilizations such as the Assyrians, Babylonians, Romans, and Ottomans. This region has developed into a prominent agricultural center. The cultivation of pistachio nuts is particularly noteworthy since it plays a big role in the region's renowned cuisine.

The Southeastern Anatolia Project (GAP) is acknowledged as one of the most ambitious endeavors in sustainable development globally. Its primary objective is to strengthen the regional economy by implementing enhanced irrigation systems and generating hydroelectric power. This program has led to significant changes in local agriculture, industry, and living standards, resulting in notable progress in the utilization of machinery and agricultural methods.

Gaziantep has become a prominent industrial center, with a flourishing food-based sector, apparel and textile manufacturing, and oil refineries. It is also known for its exceptional culinary scene, which is particularly acclaimed for its pistachio-based dishes, as said before and baklava.

In terms of the economy, the region is further strengthened by livestock farming and a variety of important industrial businesses. Significantly, this region plays a crucial role in Turkey's oil production, as well as being home to other valuable subterranean resources.

Furthermore, Kurds live mostly in southeastern Anatolia. These people have been the protagonists of many attacks and because of this, this region has also not been subject to FDI in the years from 2011 to 2018.

Figure 13 Southeastern Anatolia Region

(Source: https://www.allaboutturkey.com/regions.html)

2.5.3 Central Anatolia Region.

Central Anatolia has consistently served as the focal point of Turkey, including both its historical and contemporary themes. This expansive plateau, frequently shining among the steppe's scenery, extends upwards with a fragmented, undulating horizon that enhances its semi-arid climatic characteristics. This region experiences a genuine brutal continental climate, characterized by hot summers and freezing winters.

From an economic standpoint, Central Anatolia holds significant agricultural importance as a prominent region and a hub for animal husbandry. Cereal farming and animal husbandry have long played a major role in the economy of this area for millennia. The region's primary economic activities are food processing, machinery production, cement manufacturing, and railway vehicle production. In addition, Cappadocia and Konya rely heavily on oil exploration and carpet weaving as their primary sources of wealth. In addition to that, this region owns abundant subterranean resources.

Ankara, the capital city, holds significant political influence and shares its cultural wealth with Central Anatolia, a historically renowned and ancient region. Cappadocia enhances its allure with its striking natural vistas, formed by volcanic activity, with fairy chimneys, and an extensive network of underground settlements and rock-carved churches from the Byzantine era. These locations not only offer various cuisines, but also serve as a window to the past by conveying the stories of early Christian settlers and old trade routes. Examples of such sites include the Ankara pear and Bishkek, which are popular among tourists.

Figure 14 Central Anatolia Region

(Source: https://www.allaboutturkey.com/regions.html)

2.5.4 Black Sea Region.

The Black Sea region, situated to the east of the central Anatolian Plateau, is renowned for its diverse landscape characterized by imposing mountains and lush green tea gardens. The region's high levels of humidity and precipitation foster the existence of abundant forests and extensive tea plantations, which contrast sharply with the arid landscapes prevalent in many other areas of Turkey. This region is predominantly agrarian, with agriculture primarily focused on the cultivation of tea due to the mountainous terrain's limited flat areas. Interior areas also support the cultivation of tobacco and rice.

Economically, the Black Sea region benefits from its vast coastline, which not only enhances its natural beauty but also supports significant economic activities like fishing, particularly the production of anchovies, and beekeeping. Despite challenges in transportation which have hampered more extensive industrial development, cities like Samsun, Karabük, and Zonguldak have seen development in industries based on agriculture, such as tea, hazelnut, and forest products. As with other Turkish coastal regions, the Black Sea area benefits from a variety of harbors that significantly contribute to its economy, underscoring the importance of its geographic positioning. Despite this, due to transportation problems, as mentioned before,

between 2011 and 2018 there was the absence of significant inflows of foreign direct investments.

Moreover, the region's rich cultural heritage, influenced by the Greeks, Byzantines, and Ottomans, adds to its appeal. Notable for its architectural marvels such as the Hagia Sophia of Trabzon and the Sumela Monastery, the area also excels in cultural expressions like polyphonic folk music and traditional dances.

Figure 15 Black Sea Region

(Source: https://www.allaboutturkey.com/regions.html)

2.5.5 Mediterranean Region.

The Mediterranean region in Turkey shows a stark contrast: it offers lush vegetation in contrast to the arid conditions found in the rest of the country, together with a mild climate. The region is situated between the Taurus Mountains and the Mediterranean Sea, and benefits from both fertile agricultural fields and a climate that supports year-round agricultural activity. The region cultivates various crops such as bananas, citrus fruits, cotton, sesame, groundnuts, and soybeans. Additionally, farming activities are carried out in greenhouses.

The Mediterranean region is a crucial economic center that is significantly influenced by the tourism sector. Cities like as Antalya and Mersin captivate a wide audience with their stunning coastlines, historic ruins, and luxurious five-star hotels. This has consequently facilitated the advancement of both the regional and national economy. As a result, coastal sea tourism emerges, and Antalya becomes the focal point of tourist in the area. Particularly these cities are mostly engaged in the manufacturing of textiles and food goods. In addition, the extraction of some minerals has also been carried.

In addition to this, there are the rock tombs in Myra and the well-preserved theaters in Aspendos, which represent the historical history of the area, reflecting the Lycian, Roman, and Ottoman civilizations.

The region's captivating blend of picturesque landscapes, rich historical significance, along with its exceptional gastronomic allure with exquisite seafood, unique spices, and abundant usage of olive oil, renders it a highly intriguing regione of Turkey.

Figure 16 Mediterranean Region

(Source: https://www.allaboutturkey.com/regions.html)

2.5.6 Aegean Region.

The Aegean Region of Turkey is characterized by its scenic coastline and plays a vital role in agriculture and tourism, thanks to its moderate climate and fertile plains. Small-scale cow breeding is the primary focus in the interior regions, whereas larger towns are characterized by a prevalence of poultry farming. Notably, the Menteşe area of Muğla is known for its active beekeeping industry.

In terms of economic development, the Aegean Region is extremely advanced and is only surpassed by the Marmara Region in terms of industrial production. Industries, primarily concentrated in İzmir and Manisa, reap the advantages of convenient access to industrial transportation, ample capital stock, and extensive raw material resources. İzmir, the third most populous city in the region, is a modern metropolis that provides access to the historical legacy of ancient towns such as Ephesus and Pergamon.

The region's tourism industry flourishes due to its rich historical archeological monuments, picturesque seaside villages, invigorating hot springs, and bustling markets. The good environment and extended dry summers also contribute to the thriving maritime tourism business. The coastal topography, distinguished by a multitude of bays, gulfs, and natural harbors, enables commerce and leads to a dense population distribution along the coast.

Figure 17 Aegean Region

(Source: https://www.allaboutturkey.com/regions.html)

2.5.7 Marmara Region.

The Marmara Region, situated in the northwestern region of Turkey, acts as a crucial intersection connecting the European and Asian continents. It encompasses the Marmara Sea and the Bosporus Strait. The region's favorable geographical location has facilitated a diverse range of cultural and economic interactions, transforming it into a vibrant center of commercial and cultural endeavors.

Marmara is Turkey's most economically developed area, with Istanbul serving as the country's main economic and cultural hub. Istanbul, along with other prominent cities such as Izmir, Sakarya, and Bursa, serves as the main center for the industrial sector in the region. This sector encompasses several industries including automotive, petrochemicals, electronics, food processing, textiles, shipbuilding, and tire manufacture. The region's advantageous geographical position, along with its strong transportation infrastructure, which includes its close proximity to the Trans-European highway and major ports on the Black Sea and Aegean Sea, considerably supports the growth of commerce and industrial activities.

Istanbul's appeal to investors is bolstered by its strategic geographical position, which reduces expenses related to obtaining information and establishing connections. Consequently, the city maintains its reputation as a desirable destination for both international corporations and a varied pool of employees. As a result, the Marmara Region has become the most populous area in Turkey, thanks to its diverse range of sectors and the country's largest export volume.

The region exhibits remarkable cultural diversity, encompassing a wide range of ethnic groups and religious groupings. Additionally, it boasts significant architectural landmarks such as Hagia Sophia and Topkapi Palace in Istanbul. These notable sights, including

historical sites like the city of Troy and the remains of Ephesus, highlight the region's deep historical importance, having formerly been the seat of power for the Byzantine and Ottoman empires.

Figure 18 Marmara Region

(Source: https://www.allaboutturkey.com/regions.html)

3 FDI in Turkey

3.1 Attracting FDI: Examining Turkey's Context

Since the latter half of the 20th century, Turkey has shown its openness and aggressive posture towards attracting foreign direct investment (FDI) through a series of strategic reforms and policies, as seen in *Chapter 2*. An attractive investment climate is created by the country's distinct combination of natural resources, advantageous location at the meeting point of Europe and Asia, dynamic and growing economy, sizable and youthful population, and a number of competitive advantages, such as a strong infrastructure and skilled labor force. These characteristics, along with Turkey's desire to further integrate into the international economy, define its FDI strategy.

In the past, Turkey's economy began to shift in the 1980s from a protectionist, state-run system to one that was more focused on the market, as analyzed in the *Economic Analysis* paragraph of the previous chapter. Significant liberalization and deregulation initiatives were made during this transition to make the economy more accessible to investors and markets around the world. The establishment of the Customs Union with the European Union in 1995 was a turning point in Turkey's economic reform journey, allowing for higher trade and investment flows with EU nations while also requiring a number of regulatory and legislative reforms to bring Turkey into compliance with EU norms.

Since the late 1980s, Turkey has been implementing an aggressive privatization program to draw in international investment. This initiative involves selling state-owned firms in a variety of industries, such as banking, telecommunications, and energy. In addition to demonstrating Turkey's dedication to a free-market economy, this action presented profitable chances for international investment.

In an effort to promote commerce and draw in investment, the Turkish government has also played a significant role in negotiating important investment treaties and free trade agreements (FTAs) with important regional and international allies. These agreements aim to lower obstacles, safeguard investor interests, and strengthen Turkey's position as a crucial hub for trade between the East and the West.

The development of an investor-friendly legislative framework and the upgrading of its investment legislation have been essential components of Turkey's agenda. The 2003 Foreign Direct Investment Law is noteworthy for being a major change that gave foreign investors the same rights and responsibilities as domestic investors, expedited the FDI process, and created an environment that was more transparent and easier to do business in.

An additional major component of Turkey's FDI promotion strategy has been the provision of tax advantages and financial support tools. Tax breaks, value-added tax (VAT) exemptions, exemptions from customs duties, and assistance with land allocation are just a few of the incentives that the Turkish government provides, especially for investments in high-priority

industries like manufacturing, technology, and energy. These incentives are designed to encourage investments that support regional development, technical innovation, and economic diversification.

Moreover, Turkey has focused on enhancing its infrastructure, including transportation, logistics, and digital infrastructure, to improve the overall investment climate. Significant investments in airports, highways, bridges, and the digital economy have made Turkey more attractive for foreign investors seeking efficient access to regional and global markets.

In summary, Turkey's approach to attracting FDI is multifaceted, involving economic liberalization, strategic international agreements, legal and regulatory reforms, and comprehensive incentive programs. These efforts reflect Turkey's understanding of the global investment landscape and its commitment to establishing itself as a competitive, dynamic, and attractive destination for foreign investment.

3.2 The evolution of FDI in Turkey

The legal foundation for preparing for foreign direct investment was established as early as the 1950s, but in the last several decades, Turkey's economy has become much more open. The director of Turkey's foreign investment department, Melek Us (2001), reported that up to 1980, just USD 220 million had been invested overall. The liberalization program implemented in the 1980s sought to reduce the role of the state, create an economy based on free markets, and integrate the Turkish economy with the world economy. Turkey has so steadily moved away from the inward-oriented policy and approved free market reforms as part of the liberalization program, leading to an export-oriented economic liberalization.

By the middle of the 1980s, Turkey's yearly FDI flows had increased significantly, hitting $1 billion in 1990. Us does point out in the same research that, on average, FDI inflows worldwide peaked in the 1990s, totaling $1 quadrillion USD. As a result, there is a direct correlation between the rise in foreign direct investment worldwide and the increase in FDI into Turkey throughout the 1990s.

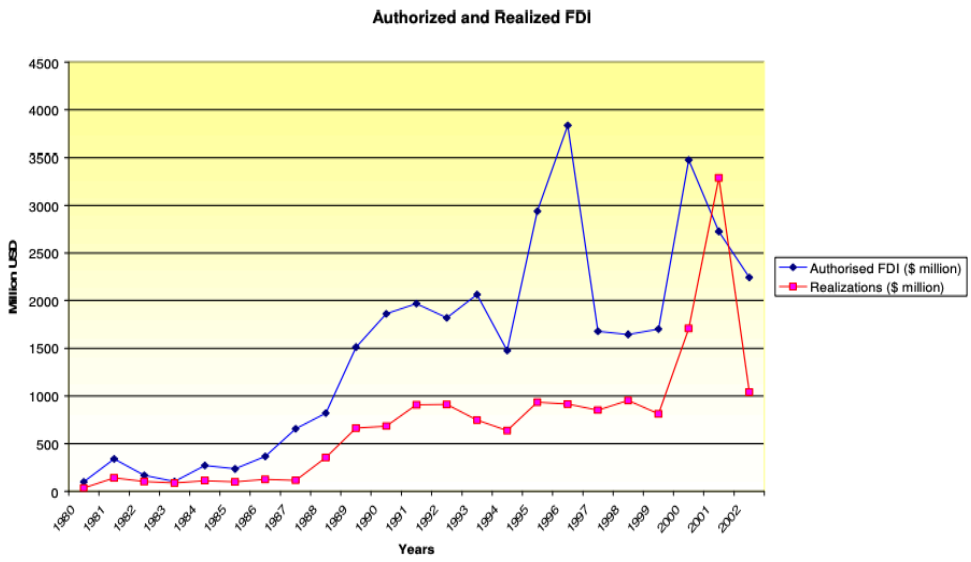

Figure 19 Authotiesed and Realised FDI

(Source: Turkish Treasury, data as of June 2003)

There are significant variations between the year 1995, when the Customs Union agreement was reached, and the year 1996, when it was ratified and realized in terms of FDI flows. The primary cause was that investors' expectations about the opportunities for investment in Turkey were not in line with the actual circumstances. As a result, the majority of approved investment projects were not carried out in the 1990s (Loewendahl & Erdugal, 2001). Stated differently, the aforementioned data suggests that the previous administrations were not able to accommodate the substantial demand expressed by outside investors.

Based on the Figure 3.1, Turkey's GDP saw FDI inflows of only 0.44% between 1995 and 2000. According to these numbers, Turkey was placed 81st out of 91 emerging and transitioning nations, with an average FDI inflow of 2% of GDP. Moreover, the European Commission highlighted Turkey's low inward FDI performance as a roadblock to economic integration and growth in its 2000 progress report. In addition to all of these considerations, the World Investment Report from 2002 stated that Turkey has an annual potential for FDI attraction of US$ 35 billion. Besides, as was the case with the World Investment Report in 2003, Turkey has been listed as an underperforming country despite highlighting its strong FDI potential.

As of 2004 and 2005, the FDI inflow has dramatically expanded, having stabilized in the $800–$1,000 million level during the late 1990s. By 2003, however, Turkey had fallen to 57th place with $1,753 billion in FDI and in 2004 it ranked 35th globally in the UNCTAD World Investment Report with $2,733 billion in FDI. In the same year, Turkey surpassed China to become the OECD's fastest-growing nation with a 9.9% GDP growth. Due to the implementation of the EU Economic Criteria legislation and the final stand-by agreement with the IMF, the Turkish economy did better in 2006 than it did in the previous ten years.

According to the European Commission Report, the European Economy (2004, p. 100), Turkey's economy achieved stability throughout the years 2003 and 2004. Investment and private consumption have been recognized as the main factors responsible for achieving stabilization. The inflation rate failed to meet the 10% target due to strict fiscal policies and a decrease in domestic demand. The European Union acknowledges that Turkey has achieved significant progress in improving market efficiency and strengthening the institutional framework required for a fully developed market economy.

The Seventh Review under the Stand-By Agreement by the IMF states the following as the final summary of the Turkish economy:
"*An outstanding economic performance in 2003 was the result of prudent macroeconomic management. Thankfully, favorable political events, favorable global financial market conditions, and the credibility of the policy that was developed the previous year protected Turkey from negative market reaction and allowed time for fiscal and policy adjustments. The task for this program's last year is to keep macroeconomic policies firmly on course while taking decisive action toward a comprehensive program of structural changes to preserve and build on the recent gains*" (IMF, 2004).

FDI into Turkey comes primarily from EU members. France, Germany, and the Netherlands were Turkey's top investors from 1980 to 2002. The UK, Italy, and the United States came behind them. Once again, EU enterprises lead the list in terms of quantity of companies. With 1,084 enterprises as of June 2003, Germany is the top nation, followed by the Netherlands, the United Kingdom, and France (Economist Intelligence Unit, 2004). However, since 2005, there has been a noticeable surge in international interest from non-EU countries. For $6.65 billion, Oger Telecom of Saudi Arabia acquired 55% of Turk Telecom.

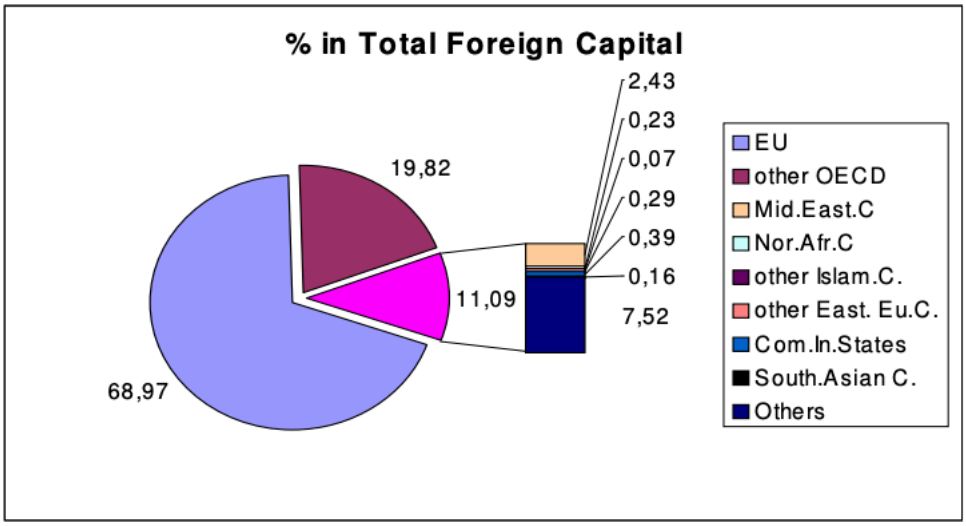

Figure 20 Percentage in Total Foreign Capital

(Source: Turkish Treasury, data as of March 2005)

Turkey's foreign direct investments have been increasing since 2005, and in 2007 they reached a record high of 22,047 million dollars. But Turkey's foreign direct investments (FDIs) suffered from the global economic crisis that started in 2008; it started to rebound in 2010 and reached a peak of $16,176 million in 2011. In 2014, foreign direct investment totaled $12,765 billion in Turkey, of which $4,321 billion came from foreign purchases of real estate and $8.5 billion came from financial contributions. The narrative highlights the fluctuating nature of foreign direct investment (FDI) inflows into Turkey, emphasizing the country's adaptable economic policies, efforts towards global integration, and the impact of international economic trends on its investment climate.

Without a doubt, the Corona crisis in 2020 has a disastrous impact on the world economy. In 2020, there was a 3.5% decline in the world GDP, a 35% decline in global trade, and the first time in 20 years that FDIs fell below $1 trillion globally.

Turkey shown a higher degree of resilience in overcoming the crisis compared to the majority of other nations. Despite a modest 1.8% growth in the nation's GDP in 2020, it outperformed other nations with negative growth, especially when compared to the global average. The primary factor was the remarkable 16.4% increase in the Turkish economy's Gross Domestic Product (GDP) during the third quarter of 2020, which effectively compensated for the significant 10.8% decrease experienced in the second quarter.

The Covid 19 problem also had a negative impact on foreign direct investment into the nation. Specifically, lockdowns, company closures, social distancing regulations, and future uncertainty led many investors to delay their investments, waiting for the global economy to fully recover, just like they did everywhere else in the world due to the pandemic. As a result, global FDI fell sharply to its lowest level in 20 years, even lower than it was during the 2007–2009 global financial crisis. In contrast to numerous other nations, Turkey had a 16.5% decline in foreign direct investment inflows, amounting to only $7.88 billion—the lowest level since 2005. Nevertheless, this decrease is not as noteworthy as that of the other nations.

3.3 FDIs Laws

In 2003, Turkey implemented a significant legislation known as the Foreign Direct Investment Law No. 4875 (FDI Law),as mentioned before. It brought about substantial modifications in the management of foreign investments within the country. This legislation transitioned from a framework that necessitated pre-authorization to one in which enterprises are only obligated to inform authorities once they have entered the market. The objective is to enhance the accessibility and attractiveness of investing in Turkey by providing explicit guidelines for investment procedures, safeguarding the rights of investors, and assuring equitable treatment for all parties involved. Therefore, The FDI Law substituted outdated and complex approval procedures with a simple notification mechanism. Indeed, foreign investors are obligated to notify the General Directorate of Incentive Implementation and Foreign Investment regarding

their activities, although they are not compelled to await approval. This method minimizes bureaucratic obstacles and prioritizes a facilitative rather than inhibitive regulatory function.

Furthermore, foreign investments are normally permitted in all industries under the law, unless there are special legal provisions or international agreements that impose restrictions. Nevertheless, it upholds specific measures, such as limitations on the acquisition of foreign properties in military areas, in order to secure national security and preserve cultural authenticity.

There are laws about air transport operations, petroleum, industrial zones, tourist, and banking work together to assist the control and regulation of foreign investment in a sector that ensures the careful consideration of national priorities and investment standards. The Ministry of Industry and Technology oversees the administration and regulation of these incentive schemes through the General Administration of Incentive Implementation and Foreign Investment. The Investment Office of the Republic of Turkey operates under the direct patronage of the President with the aim of enhancing investor assistance:

Turkey's FDI policy focuses on reducing transaction costs and promoting market participation rather than restricting it.
According to Article 2 of the FDI Law, an investment must meet certain criteria in order to be consider:

1. a foreign investor founding a new business or a branch of an existing foreign company;
2. acquisition of shares of a Turkish-established company (any portion of shares obtained outside of the stock exchange, or 10% or more of the firm's shares or voting power obtained through the stock exchange) through the use of the following financial resources, among others:
    a. assets that the foreign investor purchased overseas include:
        i. cash capital in the form of convertible currency that the Republic of Turkey's Central Bank bought and sold;
        ii. foreign company stocks and bonds (not government bonds);
        iii. machinery and equipment;
        iv. industrial and intellectual property rights;
    b. assets acquired from Turkey by foreign investors:
        i. reinvested earnings, revenues, financial claims or any other investment-related rights of financial value;
        ii. commercial rights for the exploration and extraction of natural resources.

It is required for all transactions covered by the regime to file a notification. Notification of FDI is required, although it does not start a review process, and neither the FDI Law nor the Regulation specify what happens if notification is not made.

The following categories of FDI notification requirements are outlined in the FDI Law's implementation regulation:

1. Businesses and branch offices that are governed by the FDI Law are required to provide the Directorate with information on the following via the online electronic incentive application and foreign investment information system (E-TUYS):
    a. their assets and activities by May 31st of each year;
    b. the payments made within a month of the deposit to their equity accounts;
    c. share transfers made, within a month of the share transfer's realization, between current domestic or international shareholders or to any domestic or foreign investors outside the company;
2. Domestic companies must submit the share transfer information within a month of the share transfer becoming real if one of the following two scenarios occurs:
    a. a foreign investor participates in the company;
    b. a foreign investor participates in the company but is not a shareholder during the capital increase of the company.

Moreover, since the purpose is to inform, the notification does not require permission from the Directorate. Once the notification has been given, the criteria meet the case. As a result, a specific process of appeal is not established.

The Directorate does not accept or reject the transaction upon receiving the FDI notification because the Turkish FDI regime is an informational system rather than a license and approval system.

The implementation of the FDI Law in Turkey has had a significant influence on the country's economy, resulting in the attraction of more than US$251 billion in foreign investment across many industries such as finance, manufacturing, energy, and technology. This demonstrates that the legislation not only streamlined the investment procedure but also enhanced Turkey's status as an attractive hub for global investors.
Thanks to this law, FDI inflows reached US$13 billion in 2022, while outflows from foreign direct investment totaled US$5 billion. Net inflows reached US$8.1 billion, a 17.4% increase over 2021 levels. Net capital inflows from direct investments totaled US$1.8 billion, excluding real estate investments.

The foundation of Turkey's foreign direct investment (FDI) policy is the idea of creating an environment that is conducive to investment. For over 20 years, Turkey has adhered to this strategy without faltering. For the foreseeable future, it is therefore expected that an investor-friendly strategy will be kept in place.

3.3.1 Typical transactional structures

Foreign investors are subject to the same requirements and have the same rights as local investors since the FDI Law is founded on the equal treatment principle. When it comes to business registration and share transactions, foreign investors are bound by the same rules as domestic investors. Foreign investors can establish any corporation structure in Turkey according to the provisions of Turkish Commercial Law. These encompass many legal entities,

such as general partnerships, limited partnerships, partnerships limited by shares, limited liability companies, and joint stock companies. Facilitating accessibility is achieved through the presence of a Trade Registry Directorate situated within a Chamber of Commerce. Notably, the entire process of incorporating a business can be accomplished within a single day, demonstrating Turkey's unwavering dedication to fostering an efficient business climate.

It is important to emphasize that while the establishment of these corporate entities is made easier, the acquisition of assets by foreign investors, especially in real estate, undergoes more stringent regulatory procedures. Foreigners are subject to restrictions when it comes to buying real estate in Turkey. These conditions are applicable to the majority, if not all, of the transactions involving the purchase of immovable assets. Therefore, it is vital to possess a thorough comprehension and adherence to the rules pertaining to the acquisition of real estate. This dual approach emphasizes the importance of maintaining a balance within the Turkish legal system. It aims to both promote investment and protect national interests.

3.3.2 Further considerations

The Turkish Foreign Direct Investment (FDI) system is very receptive to international capital and maintains a regulatory framework that aligns closely with the rules of the European Union, particularly in terms of merger control. Under the present Turkish merger control framework, the Turkish Competition Authority mandates clearance for a certain set of mergers or acquisitions in the following circumstances.

In March 2022, a new provision was adopted to address "killer acquisitions" as part of the ongoing effort to adapt to the changing nature of modern commerce, specifically in the technology industries. This provision, therefore, grants exemptions based on specific criteria: technology companies are exempt from the usual threshold requirements if their primary focus is on research and development activities within Turkey or if their target market is limited to Turkey. The sectors eligible under this specific provision include digital platforms, software, gaming software, financial technology, biotechnologies, pharmacology, agrochemicals, and health technologies.

The framework also ensures that all requirements for notifying, as per the same set of criteria, are equally applicable to Turkish citizens and corporate organizations, unless there is a specifically stated advantage given to international investors. In addition, further notification requirements are imposed on other sectors such as waste management, mining, petroleum and natural gas, heavy manufacturing, telecommunications, energy, and tourism. This demonstrates Turkey's comprehensive approach to regulating various sectors that may be sensitive, as analyzed before. This will facilitate the establishment of a robust and trustworthy regulatory framework that ensures fair competition in the investment environment and effectively manages and incorporates foreign investment into the Turkish economy.

3.4 FDIs country attractiveness

The backbone of the global economy and the engine of economic growth, particularly in emerging nations, are foreign direct investments. The country that attracts foreign direct investments benefits from technology transfer, enhanced competitiveness, new management skills learned by domestic industry, and the development of human capital, as seen in *Chapter 1.* Experiences have shown that investments have far greater benefits for the countries, despite the fact that there have occasionally been problems with the countries' ability to draw in foreign capital.

3.4.1. Factors Ensuring the Attractiveness of a Place in terms of Investments

The fact that investments are not dispersed equally throughout the world highlights certain regions' or nations' desirable qualities relative to others. The fact that many EU members are a part of the common market makes them seem attractive to international investors. The following criteria are identified:

- Area, population, and standard of living
- Activities related to vocational training and research-development,
- The legal, social, and tax environments

Turkey, after 2005[8], has become more appealing to foreign investors due to its admission as an EU candidate, as evaluated in *Chapter 2.*The countries' attractiveness to foreign investment is gauged using a variety of techniques. The following 12 indicators were defined by the United Nations Conference on Trade and Development (CNUCED) in this regard:

- GDP per capita
- Growth rate of GDP per capita in the last 10 years
- The share of export within GDP
- The share of research and development expenditures of public and private sectors in the country within GDP
- The share of import within GDP
- The share of the country among the foreign investments entered on a global scale
- Country Risk
- The share of graduate and doctoral students within the total population
- The nation's market share in terms of worldwide services export

However, a country's appeal to foreign investors does not always translate into a preference for that nation over others. Depending on the size of the market, the cost of the production factors, the number of firms in the area, and the local government's policies aimed at luring foreign investment, investor businesses formulate their strategies.

[8] The analyses performed have indicated that the fact that Turkey was declared as the candidate country in the EU membership process is a motivating factor for foreign investors.

3.5 Development of the Turkish economy in terms of the place of investment

Turkey's economy, with a few distinctive characteristics, falls into the category of middle-income emerging nations. It is apparent that international investors evaluate various factors in addition to the countries' income level. Therefore, by addressing specific criteria established by (CNUCED), it is feasible to illustrate how the Turkish economy's attractiveness to foreign investors has developed over the last ten years.

3.5.1 GDP per capita

Although GDP per capita has traditionally been seen as a crucial measure for evaluating a country's progress in economic development, it is now more rational to analyze it with other aspects in contemporary times. Currently, the GDP per capita serves as a metric to determine the magnitude of the prospective customer pool for foreign investors who are interested in establishing new enterprises and providing services.

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
GDP (%)										
6.8	6.9	4.7	0.7	-4.8	9.2	8.8	2.1	4.2	3.0	4.0
Per Capita Income (Dollars)										
4,215	7,727	9,310	10,382	8624	10,112	10,538	10,539	10,800	10,304	9,130

Table 5GDP in 2004-2014 Period (at current prices) and per capita Income (Dollars)

(Source: The World Bank WDI, 2016)

As of 2014, the GDP of Turkey ranked seventh among the ten largest economies in the world, with a volume of approximately $810 billion. This characteristic reflects a large demand from outside investors.

By the conclusion of the last ten years, the GDP, which was roughly $390 billion in 2004, had nearly doubled to $810 billion . It cannot be said, however, that GDP proceeded normally during the process.

After growing at a rate of 6–7% until the middle of the second millennium, the GDP saw a decline as a result of the crises that hit Turkey in 2007 and the rest of the world in 2008–2009. It was unable to sustain its abrupt rise after the end of the global crisis in the subsequent process.

3.5.2 Growth rate of GDP per capita from 2004 to 2014

Its manner of development is also significant, even though GDP per capita is a solid indicator of the magnitude of the volume of prospective clients for foreign direct investors looking to generate new goods and services. Multinational firm managers, according to CNUCE, base their business growth strategy for the future on the historical growth tendency of the country's economy. The GDP per capita first exceeded $10,000 in 2008, experienced minimal growth in the following years, and has consistently stayed above $10,000 for the previous seven years.

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
7.87	6.98	5.58	3.44	-0.52	-6.05	7.57	6.98	0.30	2.31	1.29

Table 6 GDP per capita Growth Rate (%)

(Source: The World Bank WDI, 2016)

Turkey's GDP per capita growth was influenced by the GDP's trajectory over that time. It is evident that the global economic crisis in 2008 and 2009 had a detrimental impact on the Turkish economy, which thereafter established a development pattern but was unable to sustain it at a high level.

Turkey's current predicament, which costs about $10,000, suggests that there won't be a notable growth in foreign investment in the sector over the next few years, despite the potential demand.

3.5.3 The Share of Export within GDP

In tiny economies, export and import of goods and services account for a significant portion of GDP. Turkey implemented the decisions made at the beginning of 1980, and increased exports in order to follow the development plan. They also made great strides toward removing trade barriers with other countries, as seen in *Chapter 2*. As of 2014, Turkey's export revenue was approximately $160 billion; one of its 2023 goals was to boost this amount to $500 billion.

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
23.55	21.85	22.66	22.32	23.90	23.31	21.20	23.97	26.29	25.63	27.88

Table 7 The Share of Goods and Service Export within GDP (%)

(Source: The World Bank WDI, 2016)

The Table 6 shows that, after a ten-year period, the percentage of exports in GDP climbed from 24% in 2004 to approximately 29%. Turkey's export potential grew over the time, but in order

to reach the $500 billion export goal, an annual export growth rate of more than 13% must be maintained. In contrast, during the last 35 years under review, the GDP share of imports was 23.2% and the GDP share of exports was 14.6%. In comparison to the prior year, the export to GDP ratio fell in 2013 but rose to its highest point in 2014. Nonetheless, exporting in this manner promotes foreign direct investment due to its performance.

3.5.4. The Share of Goods and Services Import within GDP

The proportion of a nation's GDP that is made up of imported goods and services indicates how integrated that nation is into the global production chain. The growth or contraction of Turkey's economy in this domain provides insight on the level of economic activity within the nation and its level of integration with the global economy. The concurrent rise of the Turkish economy's import volume and its economic activities can be attributed to the latter's requirement for intermediate products and energy inputs.

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
26.18	25.35	27.58	27.48	28.34	24.42	26.75	32.64	31.45	32.17	32.12

Table 8 The Share of Goods and Services Import within GDP (%)

(Source: The World Bank, WDI, 2016)

In 2004, the import of goods and services made up around 26% of the GDP; by 2014, that percentage had increased to approximately 32%. Over the course of the last ten years, there has been an increase in import during times of economic expansion and a decline during times of significant constrictions. In addition to rising from $69 billion to $202 billion, imports also exhibited a roughly 30% decline between 2003 and 2008 as a result of the global crisis. In 2014, Turkey's imports were valued at $242 billion. With $55 billion, mineral fuels and oils were the item in which imports were produced the most. Boilers, machinery, mechanical appliances, and tools came next.

3.5.5 The Share of Foreign Direct Investments within GDP

The proportion of foreign direct investments to GDP serves as a gauge of a nation's ability to integrate into the global economy, the protectiveness of its policies, the growth of its financial markets, and the quantity and efficiency of its production factors. Other investors are inherently encouraged when a country's GDP has a high percentage of foreign direct investment. It is a sign of the current attraction that creates the impression that the nation is suitable for international investment.

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
0.710	2.076	3.802	3.406	2.718	1.396	1.244	2.088	1.683	1.504	1.567

Table 9 The Share of the Foreign Direct Investments within GDP (% of GDP)

(Source: The World Bank, WDI, 2016)

Over the these 10 years, Turkey has seen a roughly two-fold growth in the GDP share of foreign direct investments. Foreign direct investment as a percentage of total investments was 0.71% in 2004; by 2005, it had risen to 2%. Turkey became more accessible to international investors after it was announced at the start of 2005 that it was going to be an EU candidate nation. The amount of foreign direct investment as a percentage of GDP peaked in 2006; foreign capital inflow into the nation significantly boosted economic growth up until 2008, when the global financial crisis really took hold. These growth rates contributed to the rise in foreign capital inflows as well. The percentage of foreign investments within GDP showing a steady increase until 2008 began to decrease as of this year.

3.5.6 Country Risk

The term "country risk" describes all of the political, social, and economic dangers that international investors may encounter in the nation in which they choose to place their money. All investors who are assessing investment prospects in foreign countries are impacted by the country risk factor. There are three basic categories into which country risk falls: these risk elements are societal, political, and economic. A nation's country risk is determined using the formula below:

Country Risk (X) =0.5(Political Risk +Financial Risk + Economic Risk)

The lowest danger is indicated by the value of (theoretically) 100, which may be obtained from the formula, and the highest risk is indicated by (theoretically) 0. The estimated numerical nation risk value and the country risk level have an inverse connection, as they do with all risk categories and components. Stated otherwise, the degree to which a country's numerical country risk value is high indicates how low its country risk level is. On the other hand, the degree to which a country's numerical country risk value is low indicates how high its country risk level is. The PRS-ICRG (Political Risk Services-International Country Risk Guide) assessment according to their scores they take from the country risk assessment.

- Very High Risk: 00.0/49.5
- High Risk: 50.0/69.5
- Intermediate Risk: 60.0/69.5
- Low Risk: 70.0/79.5
- Intermediate Risk: 80.0/100

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
64.27	67.89	66.37	65.27	63.33	60.89	63.33	62.60	61.89	63.43	60.56

Table 10 Country risk

(Source: http://epub.prsgroup.com/the-countrydata-gateway)

This computation showed that Turkey's country risk was 63.62 between 2004 and 2014. The accounting statement prepared as part of the PRS-ICRG assessment places Turkey in a moderate risk category. Similar to the growth of foreign direct investments into Turkey, local and global changes have an impact on the evolution of country risk. At the very least, the country risk decreased in 2005 when Turkey was named an EU candidate; but, as the global financial crisis surfaced in 2008, the risk started to rise. It was in the moderate risk category by 60.65 level in 2014, but it was getting closer to the high-risk level.

3.5.7 The Share of Graduate and Doctoral Students within the Total Population

One way to gauge the potential for a highly skilled labor force in the nation is to look at the percentage of graduate and doctorate students in the overall population. The lengthening of education in society as evidenced by the rise in graduate and doctorate enrollment shows that the quality of human capital—which the economy needs—has increased. It denotes the adoption of new technology, the adjustment to changes in the corporate world, and the betterment in the distribution of income among individuals. In this sense, the nation's ability to manufacture high-tech items is enhanced by the improvement in human capital. The overabundance of students enrolled in postsecondary educational institutions is indicative of a favorable perception that the labor force required by foreign enterprises making investments in the nation might be satisfied.

Year	Number of Graduate Students	Number of Doctoral Students
2004	21850	2838
2005	23009	2838
2006	27734	2594
2007	15595	4748
2008	28758	3754
2009	33697	4253
2010	42760	4684
2011	27626	4653
2012	25813	4506
2013	36674	4873
2014	41842	4516

Table 11 2004-2014 Number of Graduate Students

(Source: https://istatistik.yok.gov.tr/)

Since the 2000s, Turkish governments have increased their budgetary allotment to education, which has helped the country's educational institutions expand both in terms of number and quality. The number of people who graduated from college and graduate programs in subsequent years was also impacted by the fact that the length of high school education was expanded from three to four years starting with the 2005–2006 school year. Since 2007, graduate education has been promoted by Turkey's growing university population.

3.5.8 The Share of Country's Market within Global Services Export

The services sector's GDP added-value and abundance of job possibilities significantly boost the growth of the domestic economy through foreign commerce. The importance of service industries like banking, transportation, and health has expanded as a result of the manufacturing sector's growth and the resulting high income level. As a result, industrialized nations are the only ones where the service sector has developed. Developing nations buy services, whereas more developed nations export them on the global market. Over the past three decades, the services sector of the global economy has had the strongest growth. The expansion of services is a result of advancements like the quickening pace of globalization and the lowering of trade barriers internationally.

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
23.1	27.8	26.0	29.9	36.9	35.6	36.9	40.8	43.2	46.6	50.3

Table 12 Turkey's Global Services Export (Billion $)

(Source http://www.turob.com)

Turkey's trade in services, and thus its exports of services, are unique to emerging nations and have doubled between 2004 and 2014. The export, which was valued at $23.1 billion in 2004, grew steadily in the ensuing years, but the global crisis of 2009 had a detrimental impact. After 2010, it had tremendous growth, reaching $50.3 billion in 2014. Turkey's service exports at the conclusion of the 2004–2014 period show that the globalization process boosted the country's ability to integrate with the global economy and expanded the diversity and specialization within the system. This is largely due to the free trade agreements that have been reached with numerous nations in recent years.

4 Literature review

4.1 Studies examining the relationship between FDI and economic growth

Numerous investigations in the literature have delved into the correlation between Foreign Direct Investment (FDI) and economic growth across various countries or groups of nations. Their primary objective has been to scrutinize the interplay between these two variables. Some of these inquiries have resulted in the assertion that FDI exerts a favorable impact on economic growth.

In the work by De Mello and Luiz (1997), they dissected the connection between FDI and economic growth through panel data analysis, employing annual data spanning 1970-1990 for 33 Emerging Market Economies (EMUs). Their findings indicated that FDI exhibited a positive influence on economic growth within this cohort of countries.

Similarly, Nair-Reichert and Weindhold (2000) explored the relationship between FDI and economic growth using fixed and random mixed data analysis, employing annual data covering the period from 1971-1995 for 24 Emerging Market Economies (EMEs), which included Turkey. Their study concluded that FDI positively impacted economic growth within this group of developing nations.

Değer ve Emsen (2006) probed the FDI-economic growth nexus through panel data analysis, encompassing annual data from 1990-2002 for 27 transition economies. Their analysis revealed that FDI played a pivotal role in fostering economic growth within transition economies.

Açıkalın et al. (2006) conducted an examination using Turkish data from 1980-2002. They scrutinized the relationship between FDI, economic growth, and employee wages, employing co-integration and Granger causality tests. Their findings highlighted co-integration between employee wages, Gross National Product (GNP), and FDI. Moreover, they identified a two-way causal relationship between employee wages and FDI, as well as employee wages and GNP. Additionally, they determined a unidirectional causal relationship from GNP to FDI.

Demir (2007) studied the relationship between FDI and economic growth through time series analysis, employing monthly data from Turkey spanning 1996:2-2005:9. Using regression analysis, Johansen co-integration tests, and Granger causality tests, Demir found a positive relationship between the two variables. Co-integration analysis suggested a long-term relationship between FDI and economic growth. The causality analysis indicated that FDI drove growth, but growth did not drive FDI.

Afshar (2008) explored the relationship between FDI and economic growth in Turkey using quarterly data from 1992:1-2006:3, employing Granger causality tests. The study concluded a unidirectional causal relationship from FDI to economic growth in Turkey.

Erbaykal and Okuma (2008) investigated the relationship between FDI and economic growth in various countries, employing the Toda-Yamamoto Granger causality test and annual data spanning 1970-2006. Their findings showed that economic growth drove FDI in Mexico, Thailand, Brazil, South Korea, Malaysia, and Turkey, while Indonesia and Singapore exhibited mutual causality. India, however, did not display causality between FDI and economic growth.

Demirel and Mucuk (2009) examined the FDI-economic growth relationship in Turkey using monthly data from 1992:1-2007:9. Their study employed co-integration tests, Granger causality tests, effect-response functions, and variance decomposition tests. Co-integration analysis revealed a long-term relationship between the variables, and Granger causality tests identified a two-way causal relationship. Effect-response functions and variance decomposition tests corroborated these findings, although economic growth's explanatory power for FDI was relatively lower.

Agayev (2010) investigated the relationship between FDI and economic growth in 25 transition economies, utilizing annual data from 1994-2008 and employing Pedroni co-integration and Granger causality tests. The study detected a significant long-term relationship between FDI and economic growth and a unidirectional causal relationship from FDI to economic growth.

Ayaydın (2010) explored the FDI-economic growth link in Turkey using annual data spanning 1970-2008. Employing Johansen-Jeselius co-integration tests, causality analysis, and variance decomposition, the study concluded that FDI and GNP were co-integrated, signifying a significant long-term relationship. Causality tests revealed a one-sided causal relationship from FDI to economic growth. These results were consistent with the findings of Akıncı et al. (2011), who examined the relationship between FDI and economic growth in Turkey using Granger causality and co-integration tests with annual data from 1980-2008.

Temiz and Gökmen (2014) analysed that Foreign direct investments (FDIs) significantly impact the global economy, impacting both industrialized and developing nations. It involves multinational corporations establishing fixed business activities across national borders. The positive effects include capital accumulation, technology transfer, knowledge acquisition, innovation development, and economic growth. This study examines FDI literature and investigates the relationship between FDI influx and GDP growth in Turkey using econometric methodologies. The study aims to provide a comprehensive understanding of FDI's impact on global economic growth.

Benghoul, Ayidin (2019) analyzed the correlation between economic growth and foreign direct investment (FDI) in Turkey from 1984 to 2017, considering governance indicators such as 'control of corruption' and 'rule of law'. The findings show that FDI does not significantly drive economic growth in Turkey, with a positive correlation but no causal relationship. Furthermore, the influence of corruption control and adherence to the rule of law on Turkey's growth is not substantial. This highlights the need for more research on governance indicators and their impact on economic growth in emerging economies.

Özek (2020) analysed the transition from a command economy to a free market economy led to significant sociological and economic changes, affecting labor force structure and capital source and quantity. This study examines the impact of foreign direct investments on transition economies, focusing on their capital channel. Results show that foreign direct investments significantly impact the economy over an extended period when countries are holistically assessed.

While the majority of studies investigating the FDI-economic growth relationship suggest a positive influence of FDI on economic growth, a limited number of studies have found no significant connection between the two variables.

Bilgiç (2007) examined the potential causal relationship between Foreign Direct Investment (FDI) and economic growth in Turkey from 1992 to 2006. Using Johansen Cointegration and Granger causation tests, the study found no enduring correlation between the variables. The focus was on identifying causal relationships in the short term, but no evidence was found indicating a causal relationship between FDI and economic growth in Turkey, nor was there evidence suggesting that economic progress leads to increased FDI. The findings highlight the ongoing question of the causal relationship between FDI and economic growth in developing nations.

Alagöz et al. (2008) explored the relationship in Turkey using annual data from 1992-2006, utilizing the Granger causality test, and concluded that there was no causal relationship between FDI inflow into Turkey and the country's economic growth.

Bayar (2014) examined the correlation between economic development, foreign direct investment inflows, and local investment in Turkey from 1980 to 2012. It found a significant and lasting connection between economic growth, FDI inflows, and domestic investment. However, the research revealed that FDI inflows had a negative impact on economic growth in both the short and long term, while gross domestic investments had a favorable effect on economic growth in both the short and long term.

Ünsal (2017) examined the impact of foreign direct investments on Turkey's economic growth. The research uses Time Series Analysis and Panel Data Analysis to analyze the relationship between foreign direct investments, employment, capital stock, and total factor productivity. The dependent variable was the gross domestic product, while the independent variables were foreign direct investments, exports, and employment. The study found no significant correlation between foreign direct investments and economic growth in Turkey, either in the long-term or short-term, using the Vector Error Correction Model for Time Series Analysis and Fixed-Effects Regression with Driscoll-Kraay Standard Errors for Panel Data Analysis.

In summary, the general consensus among studies examining the relationship between FDI and economic growth suggests a positive influence of FDI on economic growth. However, certain

research suggests that there may be a correlation between economic growth and foreign direct investment (FDI), or a two-way link between these two factors.

4.2 Studies examining the relationship between FDI and employment

Some academics have focused on the relationship between FDI and employment and conducted studies on this topic. In some of these studies, it was concluded that FDI increased employment.

Hisarcıklılar et al. (2009) examined the effect of incoming FDI to Turkey on employment on the basis of sectors using annual data from 2000-2008 with dynamic panel and generalized moments method. The researchers determined that there is a positive but weak relationship between FDI and employment. The reason for this is that they determined that FDI arriving in Turkey was mainly due to mergers, acquisitions, and FDI arriving after 2004 in the financial sector.

Göçer and Peker (2014) examined the relationship between FDI and employment with the help of the Carrion-i Silvestre multiple structural fracture unit root test, the Maki multiple refraction co-integration test and the dynamic least squares method using annual data from Turkey, China and India for the period 1980-2011. As a result of their analysis, the researchers concluded that the variables were co-integrated. In other words, a 10% increase in long-term FDI reduces employment by 0.3% in Turkey, China and India, they showed increased by 0.3% and 0.2%, respectively. Stating that FDI coming to Turkey generally reduces employment due to mergers or privatization, Göçer and Peker said the reason for increasing employment in FDI in China is that foreign investors see China as a production base. They said the reason for increased FDI employment in India is that foreign investors have moved their computer software and call center companies to India in recent years.

Dalgıç and Fazlıoğlu (2015) analyzed the impact of FDI on employment through Trend Score Matching and Difference in Difference methods using Turkey's annual data for 2003-2012 and a firm-level dataset. As a result of their investigations, they concluded that the employment level of firms increased immediately after being exposed to FDI and that this effect continued in subsequent years.
Dalgıç et al. (2016) analyzed the effect of FDI on female employment in the service sector in Turkey using annual data from 2003-2012 with Trend Score Matching and Differential Difference techniques. As a result of their analysis, they concluded that FDI increases female employment and creates better jobs for women.

Bayar and Şaşmaz (2017) examined the effect of FDI on unemployment through a panel data analysis method using annual data from 21 EMUs for 1994-2014. Identifying a significant long-term relationship between the series, the researchers concluded that FDI reduced long-term unemployment.

Some studies examining the relationship between foreign direct investment and employment have concluded that FDI negatively affects employment, that there is no relationship between the two variables, or that FDI has no effect on employment.

Karagöz (2007) examined the relationship between FDI and employment with the Granger causality test using annual data from Turkey for 1970-2005. The researcher concluded that there is no causal relationship between FDI coming to Turkey and employment.

Ayas and Vergil (2009) examined the relationship between FDI and employment through panel data analysis using annual data for 1992-2006 based on four sectors (trade and wholesale, manufacturing, financial intermediaries, and quarrying and mining) for Turkey. As a result of their regression analysis of the panel data, they determined that incoming FDI to Turkey negatively affected employment and that the most negatively affected sector was the manufacturing industry sector. Why FDI negatively affects employment in Turkey and stated that most of the FDI is due to the realization of FDI through acquisition or merger.

Saray (2011) examined the relationship between FDI and employment with ARDL, co-integration test and vector error correction model using Turkey's annual data for 1970-2009. As a result of his analysis, the researcher concluded that both variables were co-integrated. However, he argued that incoming FDI to Turkey does not reduce unemployment and that the reason for this is that incoming FDI to Turkey targets the service sub-sector.

Sandalcılar (2012) analyzed the effect of FDI on employment with the Johansen co-integration test and the Granger causality test using Turkey's annual data for 1980-2011. As a result of his analysis, he determined that the variables were not co-integrated. As a result of his causality analysis, the researcher concluded that there was no significant causal relationship between the two variables. The reason for this is that the FDI that arrived in Turkey after the year 2000 was generally due to privatization, purchase of existing facilities or mergers.

Üçler et al. (2013) analyzed the effect of FDI on employment with the ARDL co-integration test using Turkey's monthly data for 1989-2011. As a result of their analysis, they concluded that FDI has no effect on employment in both the long and short term. The researchers stated that the reason for this was that FDI coming into Turkey was due to mergers or acquisitions of companies.

Doğan and Can (2016) examined the relationship between FDI and employment with the help of the ARDL boundary test using Turkey's annual data for 1970-2011. As a result of their analysis, they concluded that FDI reduces employment.

Aktakas and Tekin (2017) found the effect of FDI in Turkey on women's employment based on 10 different sectors (mining and quarrying, agriculture, forestry and fishing, electricity, gas, steam, water and sewerage, manufacturing, construction, wholesale and retail trade, transportation and storage, accommodation and food service activities, real estate, and financial and insurance activities) using annual data from 2004 to 2012 using the dynamic panel data

analysis method. Examined. As a result of their analysis, they determined that FDI has a negative impact on female employment. The researchers showed that the reason for this negativity is that FDI coming into Turkey is mostly in the form of acquisitions or mergers.

Erçakar and Güvenoğlu (2018) examined the effect of FDI on unemployment with Johansen's co-integration and Granger causality tests using Turkey's annual data for 1980-2016. The researchers determined that the variables were co-integrated and that the series acted together in the long run. Furthermore, following the Granger causality test they conducted, they determined that there was no causality between FDI and unemployment.

Oğuz (2018) examined the relationship between FDI and employment with the Gregory-Hansen co-integration test and the Granger causality test using annual data from Turkey for 1990-2016. The researcher determined that there was a positive long-term relationship between FDI and employment, but there was no causality between the variables.

Mehman; Dolgos; Annet and Palvin (2020) showed the cointegration between Foreign Direct Investment (FDI) and unemployment rate (UEMP) throught the Johansen co-integration test. Therefore, the Granger Causality test results demonstrated the unidirectional causal relationship from Foreign Direct Investment (FDI) and unemployment rate (UEMP).
In studies examining the relationship between foreign direct investment and employment, it is generally concluded that FDI increases employment. The reason for this is that FDI contributes to employment by establishing a new structure in the country they go to and by training new workers and managerial candidates as a result of bringing with them managerial skills, knowledge and new technologies to the country they go to. In some studies, FDI employment is negative.

It turns out that it either influences or has no effect. The reason for this is that it can be said that FDI coming into developing countries such as Turkey is mainly due to buying an existing company or becoming a partner in an existing company.

In addition to studies examining the relationship between foreign direct investment and economic growth and employment, there are also studies focusing on the factors that influence foreign direct investment. These can be economic or institutional.

4.3 Determinants of foreign direct investment (economical)

Erdal and Tatoğlu (2002) examined factors influencing FDI with the regression analysis method using annual data from Turkey for 1990-1998. In their studies, they used the market size, growth rate, openness, energy and communication expenditures made by the country to represent the infrastructure, exchange rate and interest rate variables as independent variables. As a result of their analysis, the researchers stated that the amount of FDI coming into the country will increase due to the country's high growth figures, large market, high rate of openness and presence of quality infrastructure. Stating that FDI was negatively affected due to the instability

of the exchange rate, the researchers stressed that there was no significant relationship between interest rates and FDI.

Deichmann et al.(2003) examined the regional determinants of FDI in Turkey with the Logit model test using annual data from 1980-2000 to investigate. In their study, the researchers used skilled labor force, economic growth, total length of paved roads to represent infrastructure, loan status of banks to represent financial development, and per capita income variables as independent variables. It revealed that GDP per capita and infrastructure are the primary drivers of foreign direct investment (FDI) in a region. Despite agricultural settlements decreasing competition, FDI negatively impacts the economic structure of the region. Investors seek a baseline level of industrial infrastructure. Agglomeration economies also have a statistically dependent relationship with FDI inflow. FDI is positively connected to financial market growth and labor quality, as measured by education level. According to the paper's results, it is recommended that both provincial and national governments prioritize enhancing the quality of education and work towards reducing disparities in income, infrastructure, and education.

Agiomirgianokis et al. (2003) examined the factors influencing FDI for 20 OECD countries through panel data analysis using annual data from 1975 to 1997. In their study, they used the variables of level of development, openness, market size, percentage of paved roads on the road representing infrastructure, rail network status and skilled labor force as independent variables. As a result of their analysis, the researchers found that countries have a high level of development, a high rate of openness to the outside world, and reached the conclusion that the amount of FDI coming into the country will increase with the quality of physical infrastructure and highly educated and skilled labor force factors.

Yapraklı (2006) examined the factors influencing FDI using annual data from Turkey for 1970-2006 with co-integration, error correction model and Granger causality test. In his study, the researcher used labor cost, opening rate, GDP, real exchange rate and foreign trade deficit variables as independent variables. As a result of the applied co-integration analysis, the researcher stated that the variables were co-integrated. An increase in GDP and openness variables positively and significantly affected FDI; As a result of an increase in labor costs, real exchange rate and foreign trade deficit, FDI was negatively and significantly affected. As a result of his causality test, Yapraklı found that there is a mutual causality between FDI and GDP and real exchange rate variables and concluded that there is a one-sided causality from labor cost, awareness rate and foreign trade deficit variables to FDI.
Kurtaran (2007) examined the factors influencing foreign direct investment in Turkey by regression analysis using annual data for 1980-2006. In her study, the researcher used the variables of foreign trade deficit, openness, GDP and employee wages as independent variables. In his study, Kurtaran also investigated the impact of FDI on investment during election periods. As a result of his analysis, the researcher determined that FDI was negatively affected by the increase in the foreign trade deficit and FDI was positively affected as a result of the increase in openness and GDP. Stating that FDI was not negatively affected by rising wages, Kurtaran attributed the decrease in the amount of FDI coming into the country during election

periods to the fact that foreign investors wanted to avoid any political and economic risk in the host country.

Kandır (2008) examined the factors influencing FDI in Turkey through portfolio construction and cross-sectional regression analysis using annual data of Turkey's top 500 and 500 largest foreign capital companies for the period 2000-2004. With his analysis, the researcher concluded that companies' profitability criteria, export revenues and sales volume have a great influence on foreign investors' decision to invest in Turkey.

Tatlısöz and Kar (2008) examined the least squares method using annual data from 1980-2003 to determine the factors that influence FDI coming to Turkey. In their study, the researchers used net reserves, real exchange rate, openness, GDP, increase in electricity production and labor costs as independent variables. As a result of their analysis, net international reserves, GNP, openness rate and increased electricity production increased the amount of FDI entering the country; they concluded that increasing the real exchange rate and labor costs reduced the amount of FDI entering the country.

Bıdırlı and Tarı (2009) examined the factors influencing FDI in Turkey with the help of the Johansen co-integration test and the Error Correction Model test using annual data from 1990-2006. In their study, they used the variables of GDP, openness, labor cost and inflation as independent variables. The researchers found that the openness rate of foreign direct investment increased as a result of an increase in GDP; As a result of the increase in labor cost and inflation rate, they concluded that it decreased.

Arı and Özcan (2010) examined the factors influencing FDI using annual data for 1994-2006 for 27 OECD countries with dynamic panel data analysis method and GMM (Generalized Method of Moment) estimation technique. In their study, they used the variables of economic growth, telephone lines per 100 people representing infrastructure, inflation rate, current account balance and openness as independent variables. As a result of their analysis, Arı and Özcan concluded that the variables of increasing the country's economic growth rate, good infrastructure situation and inflation rate showing no volatility have a positive effect on the inflow of foreign direct investment into the country. Researchers have determined that as the current account balance and the opening rate increase, foreign direct investment is negatively affected. In previous studies, it was concluded that increasing the opening rate increased FDI, while the opposite result was found in this study.

Berköz and Türk (2010) examined the determinants of FDI in Turkey using the least squares method using annual data for 1990-2003. In their study, the researchers used the variables of growth in domestic product per capita, population growth, change in the number of telephone uses representing port infrastructure and services, density of urban areas, coastal regions, previous foreign direct investment, bank loans, and amount of investment per province as independent variables. As a result of their analysis, the researchers concluded that the variables of economic growth, population growth, quality of infrastructure, rapid progress in congested

economies, good and high credit lines from banks are factors that increase the amount of FDI in a province. In addition, the researchers pointed out that while foreign investors invest according to the investment sector, the previous FDI has no effect for the service sector, but does have an effect for the industrial sector.

Koyuncu (2010) examined the factors influencing FDI in Turkey with the help of the Granger causality test using annual data for 1990-2009. In his study, he used GDP, openness and net international reserves as independent variables. As a result of his analysis, Koyuncu determined that foreign direct investment has a reciprocal causal relationship with GDP, openness and net international reserves.

Yavan's (2010) study highlights the significant role of agglomeration economies in determining investment choices for multinational corporations. Prior investment in a region is crucial, and the concentration of domestic industry and manufacturing facilities incentivizes corporations to select a specific region. Service-specific agglomerations hold greater significance than industry-specific agglomerations, whether international or local.

Akalın and Uzgören (2016) examined the factors influencing FDI arriving in Turkey with the ARDL boundary test approach using annual data for 1991-2013. In his studies, he used real income per capita, current account deficit rate, interest rate, democracy index, gross domestic product deflator, labor productivity and per capita. They used the tax amount per variable as the independent variable. As a result of their ARDL boundary test, the researchers found that an increase in real income per capita positively affected FDI in both the long and short run, while an increase in democracy, labor productivity and the amount of tax per capita negatively affected FDI in both the long and short run. Asserting that FDI will be negatively affected by rising costs as a result of the reflection of increased labor productivity on wages, the researchers attributed the decrease in FDI as a result of rising democracy index to the preference of multinationals for countries with weak democracies. Because they said that in countries with weak democracies, there may be restrictions on trade union activities such as seeking rights. They also stated that as a result of the increase in the current account deficit ratio, FDI was negatively affected in the long run and had no effect in the short run. They stated that the increase in interest rates had a positive effect on FDI in the short term, but not a significant effect in the long term. Finally, they found that the inflation variable did not have a statistically significant effect on FDI in both the long and short term.

Alper and Oransay (2016) examined 22 groups of high-income OECD countries and 12 groups of upper-middle-income countries using annual data from 2005-2013 to determine the factors influencing FDI by factorial analysis and appropriate generalized least squares (FGLS) method. In their studies, they used the variables of current balance, government investment, GDP, financial development, telephone line, number of Internet users, population growth, and patent demand as independent variables. As a result of their analysis, the researchers determined that FDI increased as a result of an increase in current balance, public investment and GDP rates in the group of upper middle-income countries, while FDI decreased as a result of an increase in

the rate of financial development. In the group of high-income OECD countries, FDI increased following an increase in the telephone line, current account balance, number of Internet users, population growth, patent applications, public investment and GDP; following an increase in employee wages, they concluded that FDI decreased.

Doğan et al. (2016) analyzed factors influencing inbound FDI in Turkey using annual data from 1974-2014 with Gragory-Hansen structural fracture co-integration test and Granger causality test. In their study, they used the real exchange rate, export and RGSYH variables as independent variables. As a result of their analysis, they determined that the variables were co-integrated. Following the Granger causality test, they found that there was a one-sided causal relationship between GDP and export and export to FDI. They said policies to increase exports should be followed to attract FDI into the country and policies to increase GDP to increase exports.

Çütçü and Kan (2018) used the Engle-Granger co-integration test, the FMOLS (Full Modified Ordinary Least Squares) test and the Toda-Yamamoto causality test to determine the factors influencing FDI in Turkey using annual data for 1970-2016. In their study, they used inflation, openness, labor costs and per capita income variables as independent variables. As a result of their tests, the researchers found that the series were co-integrated in the long run, that the openness rate was statistically insignificant, that FDI was positive as a result of the increase in per capita income, and that FDI was negative as a result of the increase in inflation and labor cost. They determined that it is affected. As a result of the Toda-Yamamota causality test they applied, they found that there was a one-sided causal relationship from the rate of outward openness to FDI and that there was no causal relationship between other variables.

Kartal et al. (2018) examined multivariate adaptive regression spline (MARS) management using annual data from 1988-2015 to determine the factors influencing FDI in Turkey. They concluded that Turkey's current account deficit had a negative impact on FDI. They stated that the current account deficit should be minimized in order to increase FDI coming into Turkey.

Saliha Meftah1, Abdelkader Nassour (2019) conducted a study aims to examine the impact of Exchange Rate, inflation and GDP on FDI inflows in Turkey between the period of 1974 -2017 by using the econometric analysis such as ADF test, Johansen Co-integration test, Vector Error Correction Method (VECM) and Granger Causality test to derive the long-run and short-run relationships among the variables. This study revealed a long-run causality relationship from REER and Inflation and GDP toward FDI. This study finds that no short-run causality relationship that runs from Exchange Rate and Inflation and GDP toward FDI short. Furthermore, the Granger causality test indicates a unidirectional causality running from GDP toward FDI inflows. There is no Granger causality among the rest of the variables. Thus, assuming all other variables remain equal, this suggests that a 1% increase in foreign direct investment leads to a 0.35% increase in the GDP.

Balkan's 2019 analysis found that Turkey's service sector experienced the most significant surge in foreign direct investment (FDI) inflow, primarily in the financial and insurance market,

followed by the manufacturing sector. The study also found a strong correlation between FDI inflow and economic development from 1985 to 2017.

Al-Goaili (2023) examines how the inflows and outflows of foreign direct investment relate to measures of economic progress such as GDP (gross domestic product). The trends and patterns of foreign direct investment (FDI) inflows and outflows from Turkey over the last ten years were analysed using data from Central Bank World. The focus of the analysis is on how FDI inflows and outflows have affected Turkey's economic growth between 2011 and 2021. The critical research points, study design, population, sampling strategy, measurement of variables, unit of analysis, measurements and data analysis techniques are presented in the study. The aim of this study is to determine the effects of FDI inflows and outflows in order to provide foreign investors in Turkey with a SWOT analysis and a high level of empirical knowledge. According to the report, FDI inflows and outflows have a major impact on Turkey's economic growth. FDI outflows promote the international expansion and diversification of Turkish companies, while FDI inflows provide much-needed funding, knowledge transfer and job creation.

Azizov, M., Bilan, Y., Jabiyev, F., Alirzayev, E., & Heyderova, A. (2023) aims at examining the influence of foreign direct investments on Turkey's GDP between 1990 and 2021. The data collection, which was utilized in logarithmic form for the empirical evaluations, comprises foreign direct investments, exchange rate levels, and the GDP of Turkey. The findings indicate that there is a statistically significant and positive correlation between foreign direct investments and GDP. The dependent variable (Gross Domestic Product) and the independent variables (foreign direct investments and exchange rate) have a long-term integrative connection.

4.4 Determinants of foreign direct investment (institutional)

According to YKİ (New Institutional Economics). institutions play an important role in economic functioning. Transaction costs, effectiveness of property rights and contract enforcement also influence foreign direct investment activities within the economic order (Wink Junior, et al., 2011; Ahlquist and Prakash, 2010, 2011). Since 1990, studies have been conducted on the institutional and economic determinants of foreign direct investment. In this context, due to changing conditions and incentives, it has become clear that not only economic factors, but also institutional capacity are important behind the foreign activities of MNCs (Wheeler and Mody, 1992; Busse and Hefeker, 2007; Globerman and Shapiro, 2002; Gastanaga, et al., 1998).

In the study conducted by Loewendahl and Ertğual-Loewendahl (2001) on Turkey's investment performance, important results are obtained regarding the investment environment following interviews with 30 managers of multinational companies. According to the findings, Turkey is an advantageous country in terms of its broad and dynamic economic structure, population density, labor productivity and ease of access to international markets. With all these

advantages, it is stated that Turkey should attract more investment with liberal FDI legislation. According to the study, when political-institutional factors are taken into consideration, Turkey loses its advantageous position. Political instability and macroeconomic instability caused by inflation are considered factors that prevent FDI entry into Turkey. In addition, lack of transparency, political interference, corruption and internal turmoil are considered other institutional factors that prevent FDI entry. It is also pointed out that Turkey's accession to the EU is a very important factor in its competition with other countries in terms of attracting more FDI.

Busse (2003) demonstrated the impact of democracy on FDI in his study of 69 emerging and emerging countries covering the period 1972-1999. In the study, democracy is represented by the political rights and civil liberties variables compiled by Freedom House. The study reveals that since the late 1990s, democracy and FDI have been a strong and positive relationship. According to cross-sectional analyses, there was no significant and positive relationship between democracy and FDI until 1970. According to Busse, this is probably due to the changing sectors in which multinational corporations invest and the negative attitude of the countries' nongovernmental organizations in the analysis toward foreign investment.

Grosse and Trevino (2005) examined the relationship between FDI and institutional factors in 13 Central and Eastern European countries between 1990 and 1999 using the panel data analysis method. In the study, they concluded that bilateral investment agreements and the removal of obstacles to the transfer of capital or profits are factors that increase FDI. However, the level of political risk and corruption faced by these countries were expressed as factors limiting FDI.

Demirtaş and Akçay (2006), in their study covering 71 countries and the years 1995-2002, revealed the effect of institutional factors on FDI. The study examines the relationship between GDP per capita, awareness rate, inflation rate and corporate tax rate and governance indicators. According to the analysis, market size, one of the traditional determinants of FDI, does not have an impact on FDI. It was concluded that openness is a more important determinant of FDI than market size. It was stressed that countries should put more effort into integration with the world economy to attract more FDI. However, it was determined that institutional factors are important determinants of FDI. In countries where institutional quality has improved, it has been observed that FDI inflows have increased because investment costs decrease and uncertainties are eliminated.

Daude and Stein (2007), in their study of 34 source and 152 host countries, most of them developed, conclude that institutional variables are an important factor for FDI. Institutional variables; drawn from the Worldwide Governance Indicators (WGI), the ICRG index and the World Working Environment Survey (WBES). The analysis found that institutional factors are effective in determining FDI, but some factors are more effective than others. For example, a change in the standard deviation of the host country's regulatory quality changes FDI by 2 times.

Dumludağ and Şükrüoğlu (2007) studied the effect of institutional factors on FDI inflows from 21 emerging market economies. The study concluded that FDI inflows will be greatest in countries with political stability and favorable investment climate, where corruption, ethnic tensions, and internal and external unrest are minimal.

Dumludağ (2009) conducted a survey with executives of 52 multinational companies operating in Turkey to examine the impact of institutional factors on FDI inflow into Turkey. The survey consists of open and closed questions to determine the relationship between macroeconomic variables and political institutions on FDI inflow. Executives of multinational companies stressed that Turkey's large domestic market is an important advantage in attracting investment. At the same time, they conclude that economic growth is effective in attracting investment to Turkey. For foreign investors in Turkey, macroeconomic and political instability is seen as a reason preventing increased FDI inflows. In the survey, the average of political instability and macroeconomic instability is calculated at 4.37 and 4.35, respectively. According to the survey, the slow pace of the privatization process and the status of negotiations with the EU are not significant obstacles for Turkey. This result is inconsistent with the findings of Loewendahl and Ertğual-Loewendahl (2001) and Kalemli- Özcan, et al. (2016). Anti-competitive practices, unpredictability of regulations, unreliable and non-transparent legal system, problems with patent rights, and corruption are considered factors that prevent FDI inflow to Turkey by managers.

There are studies using time series analysis methods to determine the impact of institutions on FDI inflows to Turkey. Arslan and Ökten (2010) analyzed the relationship between FDI and democracy in Turkey. Johansen's (1998) cointegration and error correction model methods were used in the study for the period 1970-2010. The result of the study is that there is a long-term relationship between democracy and FDI in Turkey. Based on the results of the error correction model to determine causality, it is concluded that there is a causal relationship between democracy and FDI, while there is no causal relationship between FDI and democracy. In other words, the democratic system in Turkey is an important factor for FDI inflows.

Kuncic and Jaklic (2014) studied the impact of institutions on FDI in their study of 34 OECD countries (of which Turkey is a member) during 1990-2010. Legal, political and economic institutions and the influence of liberal public opinion on FDI as an informal institutional variable are studied. Data on liberal public opinion are derived from responses to questions from the World Values Survey and the European Values Survey. According to the study, contrary to what is known, it is concluded that the quality of economic institutions has no effect on FDI. When it comes to investment, neither the economic situation of the country nor the difference in economic rules between the host and home countries contribute significantly to investment costs. However, it has been established that there is a negative relationship between the difference in legal and political institutions in host and home countries and FDI inflows. In the study, informal institutions are examined in the relationship between informal institutions and FDI inflows as they are effective in the emergence of formal institutions. According to the results, more FDI entries are made in countries with liberal public opinion.

In the study conducted by Artan and Hayaloğlu (2015), fixed and stochastic effects methods were used in the analysis of static panel data to reveal the institutional and economic determinants of FDI covering the years 1990-2012 for 29 OECD countries. Institutional factors were derived from ICRG index data prepared by the Political Risk Service. This index, which is used as an indicator of political stability, consists of 12 different indicators. The study showed that there is a positive correlation between FDI and country political risk. From 12 different indicators representing political risk, it is concluded that there is a positive relationship between government stability, socioeconomic status, investment profile, domestic turmoil, impact of the military on politics, religious tensions, law and order, bureaucratic quality and FDI. However, as a result of separate models, it is emphasized that bureaucratic quality, religious tensions and legal order variables have a greater impact on FDI than other institutional variables.

Kalemli-Özcan, et al. (2016) studied the impact of institutional factors for Turkey in his study for 16 countries, including Turkey and Central and Eastern European countries, between 1999 and 2013. It was found that exchange rate stability is a key determinant of macroeconomic variables for Turkey. When institutional factors are examined, it is stated that there is a positive and significant relationship between the legal system and FDI. This finding is in line with the expectation that law enforcement is a determining factor for foreign investors. Another finding is that stability and the government's ability to implement reforms have a positive and significant impact on attracting FDI. Moreover, in the study, the dummy variable representing negotiations with the EU has a positive and significant coefficient. This situation reveals that it is more important to increase foreign investment in a country than formal participation in accession negotiations with the EU.

Özşahin (2016) studied the effect of institutional quality and economic risk level on foreign direct investment volume and volatility for the Turkish economy. Foreign direct investment, business quality index, economic risk indicator, domestic investment volume, per capita income level, outward opening rate, volatility of foreign direct investment volume, and change in monetary size variables for the period 1984-2014 were used in the study. These variables were analyzed with the Latency Distributed Autoregressive Model (ARDL). According to the study, improved institutional quality and low economic risk have a positive and significant impact on foreign direct investment in Turkey. At the same time, it was concluded that improving institutional quality had a decreasing effect on the volatility of foreign direct investment and increasing money supply increased volatility.
In most studies in the literature, the relationship between FDI and institutional factors is assumed to be linear. Board (2017) examines the validity of this hypothesis and shows that there is a nonlinear relationship between FDI and institutional factors. In the study, variables from 126 countries between 2002 and 2012 are analyzed using dynamic panel data management. Using this method, the threshold value of the institutional quality index for attracting more investment is calculated. Based on the calculation, the threshold value was determined to be 0.40. A value lower than this represents low institutional quality, and at this point, there is no relationship between FDI inflows and institutional quality. However, the equivalent coefficient representing high institutional quality is positive, indicating that increasing institutional quality significantly increases FDI inflows. It follows that the

relationship between institutional quality and FDI inflows is not linear. Countries may attract more FDI if they exceed a certain threshold value in the institutional quality index. It was determined that the global liquidity variable has a positive effect on FDI inflows. Since increased global liquidity facilitates access to capital, it is an important driving force for FDI inflows to developing countries. In this study, in line with the study by Akçay and Demirtaş (2006), we conclude that market size does not have a driving force on FDI inflows and increased economic growth does not lead to attracting more FDI.

Bailey (2018) examined the effect of institutions on FDI by meta-analytic regression method. He investigated whether political stability, rule of law, democratic institutions, corruption, tax rates and cultural distance have an impact on FDI. It turns out that democratic institutions, political stability and rule of law have a positive impact on FDI. However, corruption, tax rates and cultural distancing have a negative impact on FDI. According to the study, the relationship between institutional factors and FDI is stronger in developing countries than in developed countries. It was found that this relationship was stronger in Asian countries than in European and North American countries. Similarly, the deterrent effect of corruption on FDI was found to be greater in Asian countries than in European and North American countries.

Völlers et al. (2021) discuss the risks of institutional change for German firms investing in Turkey and how Turkey's institutional framework mitigates investment risks. Study data: German managers were brought together following interviews with managers of German companies and experts in Turkey. The study shows that institutional factors are important for German companies investing in Turkey. 84% of the German companies interviewed consider macroeconomic stability to be the main driver of investment. Consequently, the level of financial stability and exchange rate fluctuations are effective in choosing Turkey as an investment location. The reliable political framework and geopolitical security situation are factors that German companies consider for investment. According to the results, the quality of the government is a determining factor of FDI. Therefore, the role of the state in forming a reliable business environment for German companies is very important. The corporate risk environment in Turkey induces these companies to negotiate with non-corporate actors. It is emphasized that trust between Turkish managers and German managers is part of dynamic corporate risk management. It is argued that German companies assess corporate risk based on the information and connections they have acquired by relying first on formal and then informal institutions while investing in Turkey.

Saridakis et al. (2022) investigated how a military invasion would affect food, metals, energy and international trade. They concluded that the United States would likely replace Russia as a gas supplier to Europe, although China and Turkey could benefit more from Russia's lower oil and gas prices. In the meantime, global food inflation rates will continue to rise and trade disruptions will intensify.

Mukiyen Avcı, G. (2023) uses time series analysis with a Fourier extension and institutional quality accounting to examine the environmental effects of foreign direct investment (FDI) in Turkey between 1984 and 2018. Fourier function models are more precise in predicting

structural breakdowns. Initially, we employ Fourier methods to assess the presence of a unit root and the cointegration relationship. Once cointegration is confirmed, we employ the Fourier-extended DOLS estimator to obtain the long-term coefficients. Next, we utilize the Fourier causality test to assess the causal relationship.

4.5 Descriptive Analysis of the FDI Determinants (variables of the analysis)

Since it has been analyzed which could be the determinants of the FDI in Turkey, now they will comprehensively explore at detailed level across Turkey's 26 subregions, categorized under regional level 2 (NUTS2). Indeed, they will be analysed in detail through a range of charts. Data used for this analysis have been downloaded by Turkish Statistical Institute (TUIK). These determinants will be analyzed becasue they might influence firms' location decisions within Turkey. Hence, key determinants identified as crucial in *Chapter 3 and Chapter 4* include education, import-export values, GDP per capita, types of industries, inflation and prices, wages, population size, R&D spending, transportation infrastructure, and the labor force in each subregion. The objective is to comprehensively explore these determinants at a detailed level across Turkey.

4.5.1 Education

The undeniable connection between a country's educational quality and its level of development becomes clear when examining various nations, both developed and emerging. A consistent trend shows that nations with more comprehensive and higher-quality educational systems often experience greater economic growth.

Education is crucial not only for individual success but also for societal advancement. In an increasingly intricate world, a well-educated population is essential for propelling societal development forward.

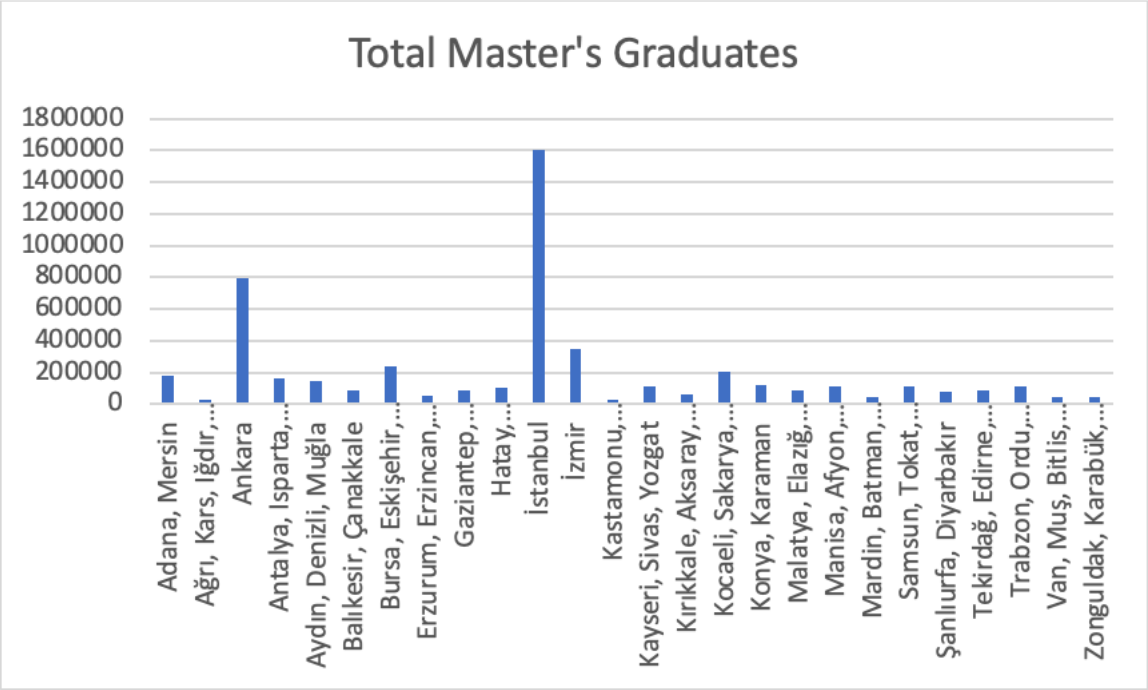

Figure 21 Master Degree Graduates, Total

(Source: Data received from TUIK, graph own evaluation)

Figure 4.1 depicts the distribution of master graduates from 2011 to 2018, emphasizing the significant contribution of İstanbul and Ankara, which are the most densely populated cities in Turkey.

This analysis encompasses educational data spanning from primary education to PhD studies, utilizing conditional logit methods to evaluate the data.

4.5.2 Export-Import

Exports and imports have a significant impact on economic dynamics through international trade. Exports contribute to the growth of the national economy and increase income, whilst imports indicate a reduction in it. Research frequently show that exports have a favorable effect on the economy, both directly and indirectly. On the other hand, imports are observed to directly reduce national income.

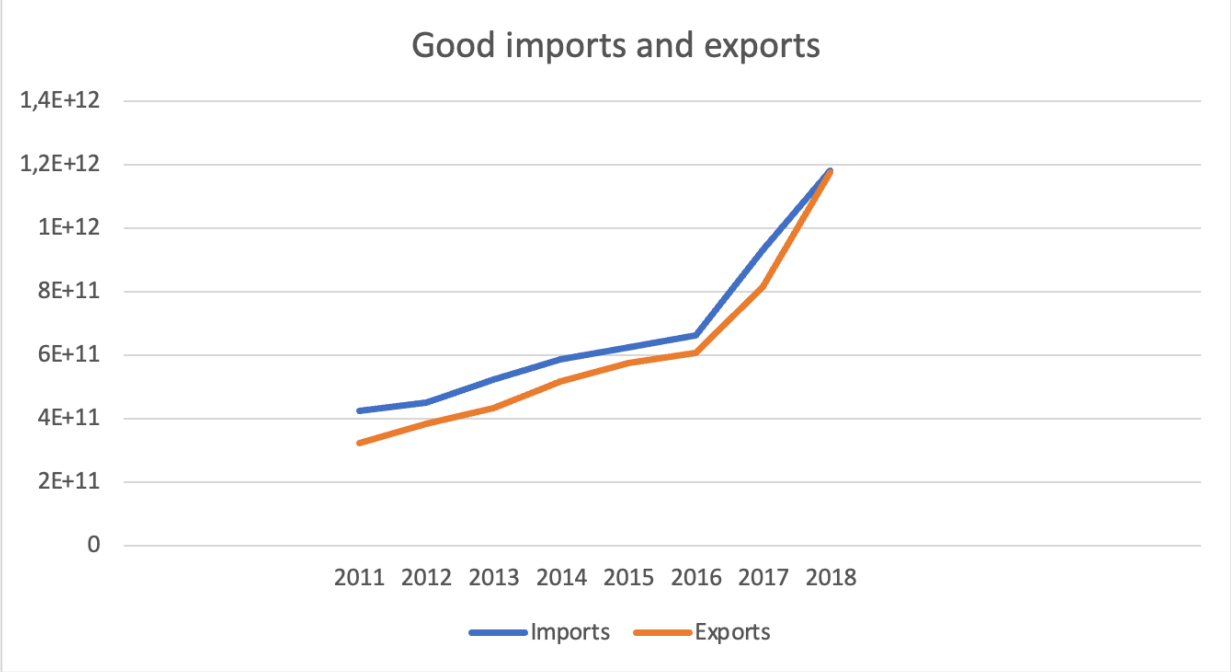

Figure 22 Goods exports and goods imports

(Source: https://knoema.com/WBWDI2019Jan/world-development-indicators-wdi)

Moreover, there has been a suggestion that the process of importing raw materials, as well as intermediate and capital goods, can enhance domestic production. These imports can also indirectly promote economic growth by improving industrial efficiency through the adoption of new technologies.

The magnitude and influence of these effects frequently rely on the scope and arrangement of a nation's global commerce (Kurt, B. & Zengin, H., 2016). The following visualization depicts the financial worth of Turkey's exports and imports, while an accompanying graph examines how these trade volumes are distributed among the country's subregions.

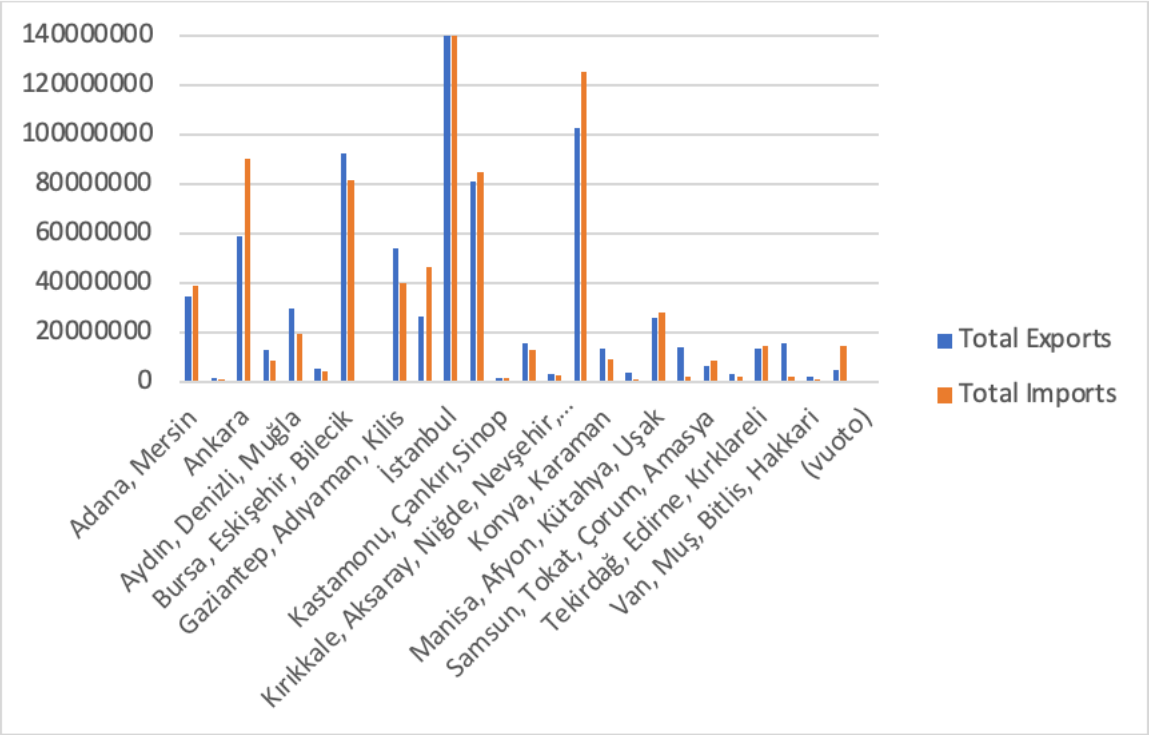

Figure 23 Import and Export Values

(Source: Data received from TUIK, graph own evaluation)

The pie chart below shows the allocation of export values from 2011 to 2018 for the subregions primarily located in İstanbul, Ankara, İzmir, and the combined areas of Kocaeli, Sakarya, Düzce, Bolu, Yalova. The precise values are as follows: Ankara contributes a total of $58,770,393 thousand, but İstanbul leads with a significantly higher amount of $633,158,938 thousands. İzmir adds $81,075,280 thousands to the total, while the combined areas of Kocaeli, Sakarya, Düzce, Bolu, and Yalova account for a substantial sum of $102,987,278 thousands

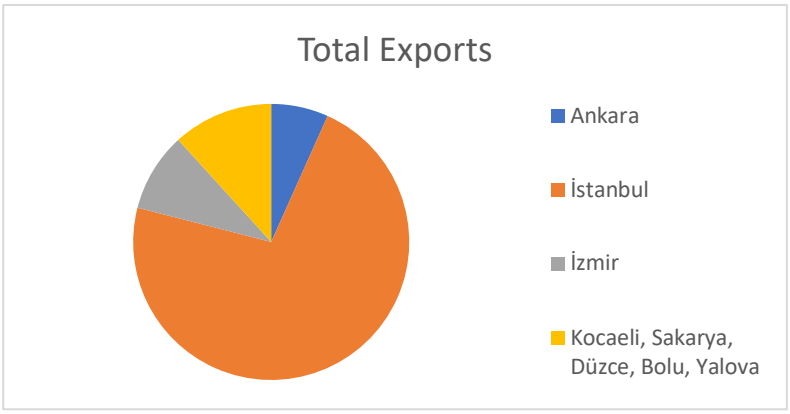

Figure 24 Cities With the Highest Export Value

(Source: Data received from TUIK, graph own evaluation)

4.5.3 GDP and GDP per capita

Gross Domestic Product (GDP) It is defined as the monetary value of all services and processed goods produced in a given period of time within a country. It is a comprehensive measure that indicates the economic well-being of the country. This comprehensive measure of domestic production serves as a comprehensive indicator for evaluating economic success.

Conversely, GDP per capita is calculated by dividing the total GDP by the population, giving a concise representation of the average economic output or revenue per person. This statistic is frequently employed to signify the overall productivity or quality of life inside the economy.

Hence, GDP and GDP per capita could be one of the most crucial determinants in influencing the MNEs decision-making in choosing their locations within a foreign country (Turkey in this case) . The following table presents a comprehensive study of these parameters on a national scale for Turkey.

GDP (constant LCU) of Turkey increased from 1.213,393 million in 2011 to 1.756,136 million in 2018 increased at an average annual rate of 5.55%.

GDP per capita (constant LCU) of Turkey increased from 16.521,38 in 2011 to 21.583,61 in 2018 which grew at an average annual rate of 3.84%.

Years	GDP (concstant LCU)	GDP per capit (constant LCU)
2011	1.213.393.967.701,82	16.347,81
2012	1.271.497.249.381,17	16.913,64
2013	1.379.394.179.144,92	18.114,74
2014	1.447.532.322.531,18	28.754,82
2015	1.535.607.237.071,46	19.632,28
2016	1.586.636.758.670,26	20.013,59
2017	1.705.666.208.538,01	21.237,81
2018	1.756.136.304.071,96	21.583,61

Table 13 GDP and GDP per capital

(Source: https://knoema.com/WBWDI2019Jan/world-development-indicators-wdi)

Table 12 shows that,by 2013, Turkey's GDP per capita had rissen to $12,500 and it had followed by and annual grwoth rate just bove 5%. However, between 2014 and 2018, the GDP per capita dropped by approximately 9,500 with a decrease in the annual growth rate equal to -10%.

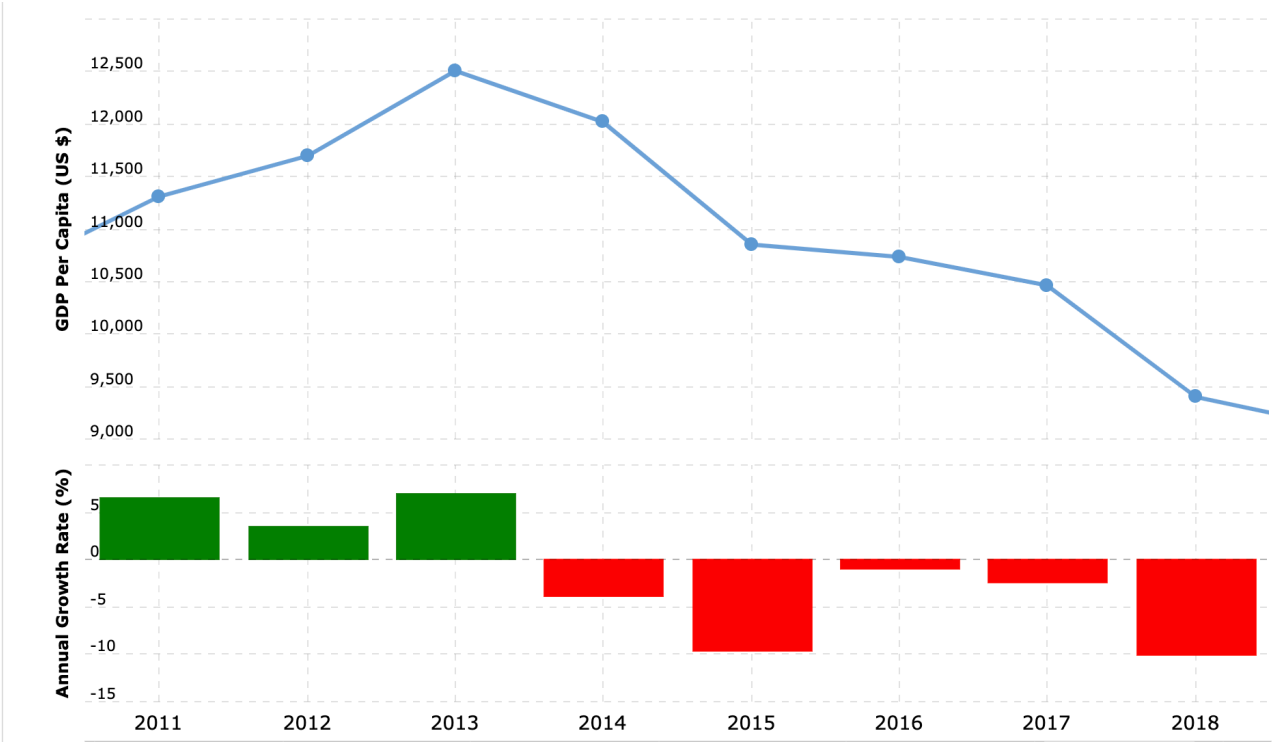

Figure 25 Gross Domestic Product by regions for year 2018

(Source https://www.macrotrends.net/global)

As shown in Figure 4.6, the higest GDP was owned by Istanbul in 2018, therefore the region of this city is the one who gave most contributon to the GDP in this specific year.

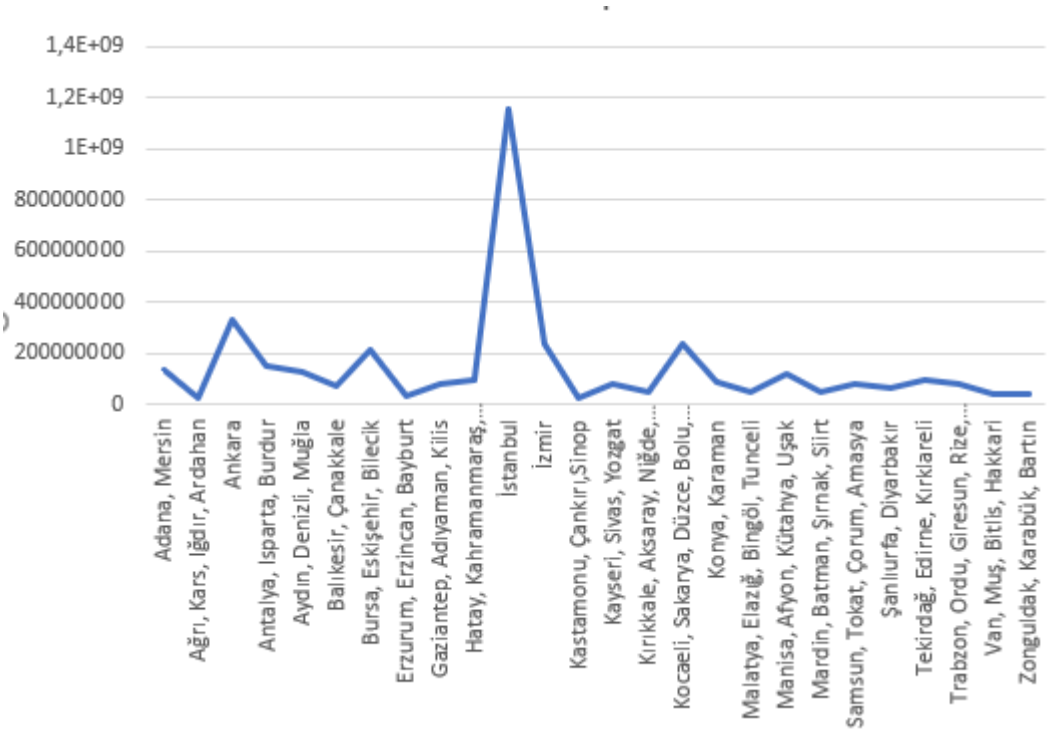

Figure 26 Gross Domestic Product by regions for year 2018

(Source: Data received from TUIK, graph own evaluation)

4.5.4 Industry

Data provided by the Turkish Statistical Institute (TUIK) presents the overall number of businesses in different sectors, functioning as a factor that demonstrates the distribution of industries. Industry-specific variables can result in the concentration of specific industries in some places due to economic conditions, while various industries may dominate in other areas. This phenomenon is known as clustering.

- Manufacturing
- Agriculture, forestry and fisheries
- Electricity, gas, steam and air conditioning production and distribution
- Construction
- Information and communication
- Finance and insurance activities
- Professional, scientific and technical activities
- Human health and social service activities

4.5.5 Inflation and Prices

The inflation rate is a crucial indicator of a country's economic stability. It is quantified as the percentage change in the consumer price index from a base period (t=0) compared to a historical

benchmark. This statistic is highly important as a predictor since it often indicates the efficacy of government programs. Significant inflation rates and the resulting instability frequently generate ambiguity inside a nation, causing global corporations to exhibit reluctance in making investments owing to perceived hazards.

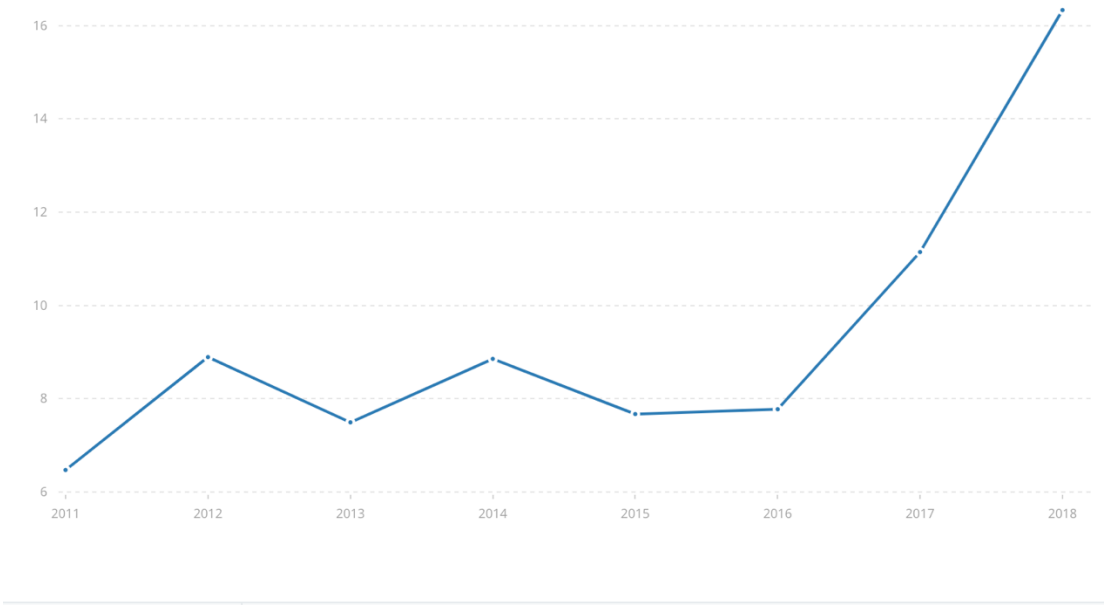

Figure 27 Inflation and Prices

(Source https://data.worldbank.org/indicator)

During the period from 2011 to 2018, there was a consistent upward trend in Turkey's inflation rate, namely in consumer prices, with an annual increase of 16.33% in 2018. However, in 2011, the inflation rate for consumer prices was 6.47%.

4.5.6 Population

According to Table 12, the population of Turkey has consistently increased during the span of 9 years (between 2011 and 2018).

Years	Population
2011	73.443.863,00
2012	74.653.016,00
2013	75.928.564,00
2014	77.231.907,00
2015	78.529.409,00
2016	79.821.724,00
2017	81.101.892,00
2018	82.319.724,00

Table 14 Population of Turkey From 2011 to 2018

(Source: Data received from TUIK, graph own evaluation)

Figure 4.8 reveals that Istanbul consistently holds the highest population among all subregions in Turkey for several years. Ankara and İzmir rank second and third, respectively, in terms of population size. Conversely, the eastern regions of Turkey generally have significantly lower population densities.

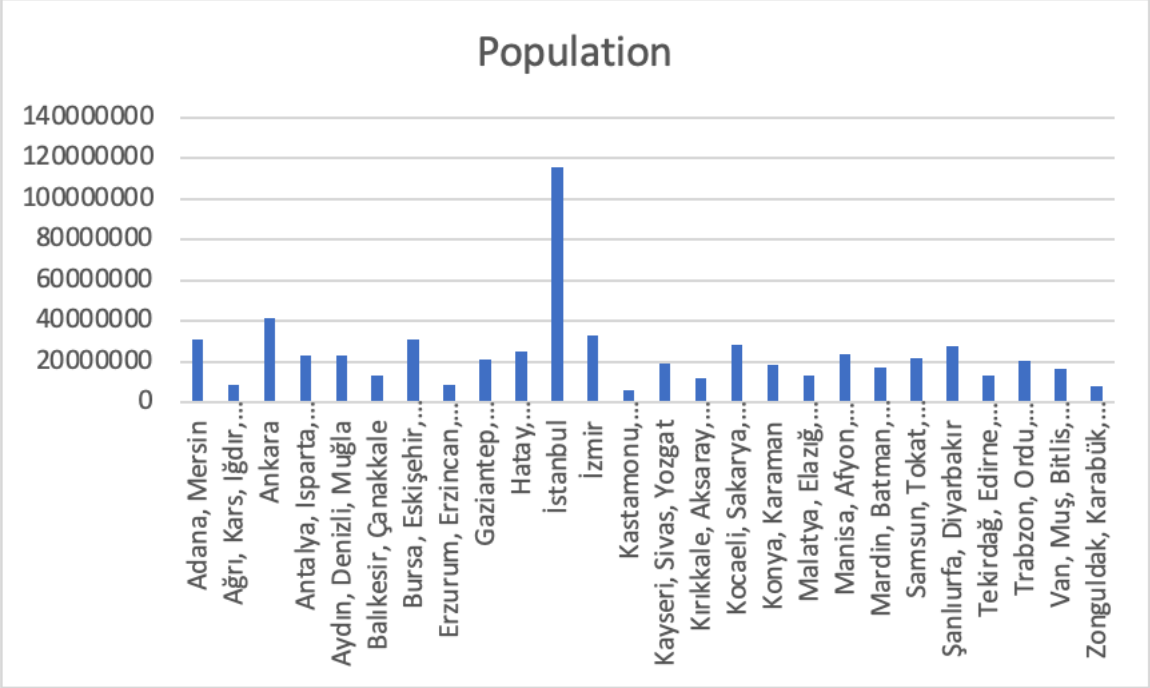

Figure 28 Population

(Source https://data.worldbank.org/indicator)

4.5.7 R&D Expenditure

The importance of Research and Development (R&D) in advancing a country's economic growth, improving its value creation, and solidifying its position in international markets is crucial. A robust R&D infrastructure is essential for enterprises aiming to compete effectively and expand their product offerings to gain a competitive edge.

Strategic investment in advanced technology is acknowledged to enhance economic stability, leading to a probable rise in Foreign Direct Investment (FDI). The primary goal of research and development (R&D) is to enhance scientific and technological understanding and utilize this understanding to introduce pioneering initiatives. R&D efforts are commonly categorized into three separate types: fundamental science, practical research, and experimental innovation.

Figure 5.9 illustrates the aggregate R&D spending of the subregions in 2018. Ankara has the biggest expenditure on research and development, with Istanbul coming in second.

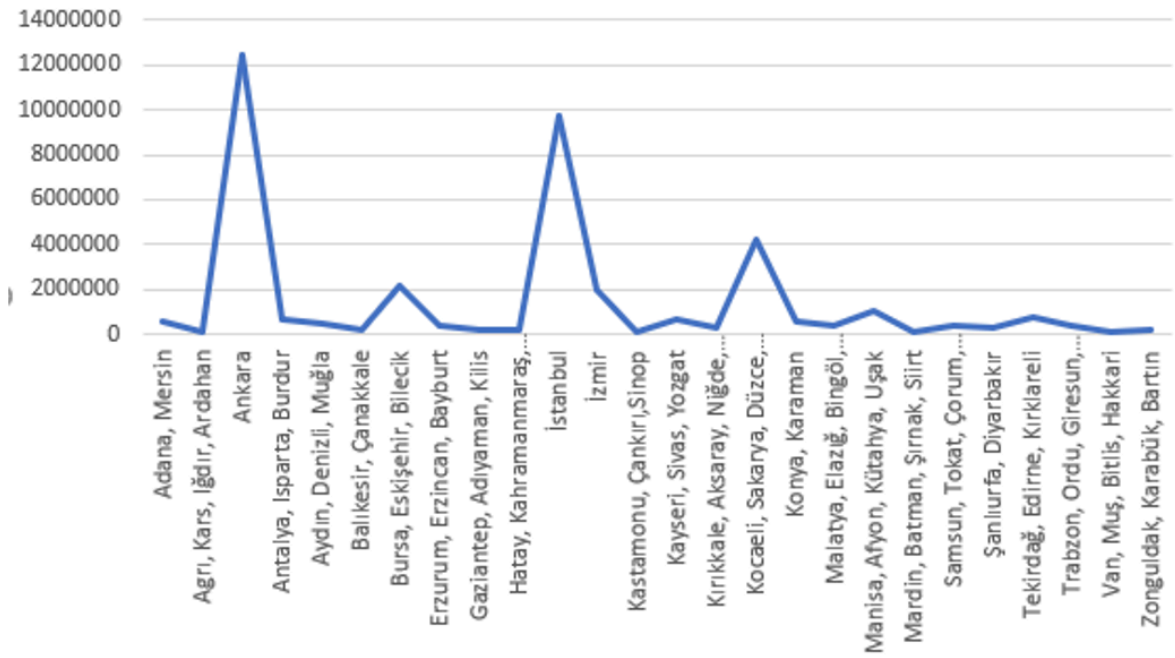

Figure 29 R&D Expenditures by Regions

(Source: Data received from TUIK, graph own evaluation)

As previously mentioned, research and development (R&D) has a crucial impact on improving the quality of products and decreasing production expenses, thereby making our everyday life easier. It is essential for companies to stay adaptable in order to uphold or enhance their position in both domestic and global competitive markets. This agility is attained by continuously striving for groundbreaking concepts.

4.5.8 Transportation

The transportation sector's significance goes beyond its integration into the production process. It plays a crucial role in the economic framework of society due to its enormous investment requirements and important contributions. As development progresses rapidly, the need for efficient transportation, especially for the movement of products, becomes more and more important.

Transportation is an essential component of everyday life, consistently influencing society through its economic and social contributions. The geographical characteristics of Eastern Anatolia, particularly the surrounding elevated mountain ranges, present a substantial obstacle to the establishment and upkeep of transportation infrastructure in the area. Furtermore, as mentioned in chapter 2, in Turkey's Black Sea and Mediterranean regions, the problem is made more difficult by the alignment of mountain ranges, which are parallel to the coast and so increase the logistical difficulties of creating transportation routes between the coastal areas and the inland regions. The situation in the Aegean and Marmara regions is different since the geographical conditions there are more favorable for the construction of transportation infrastructure. This is because there are fewer challenging topographical obstacles in those areas.

Years	Rail lines (total route-km)	Railways, good trasported (million ton-km)
2011	9,642	11,677
2012	9,642	11,670
2013	9,718	11,177
2014	10,087	11,992
2015	10,131	10,474
2016	10,131	11,661
2017	10,207	12,869
2018	10,315	14,478

Table 15 Rail Lines and Transported Tons of Good

(Source: Data received from TUIK, graph own evaluation)

4.5.9 Labor force

According to Table 14, Turkey's labor force expanded from 26.3 million in 2011 to 32.8 million in 2018, marking an average annual growth rate of 3.45%. This increase in the labor force is presumably associated with the country's rising population. The labor force serves as a critical

determinant in the location decisions of multinational enterprises (MNEs). For MNEs committed to continuing their operations in a host country, employing the local labor force is indispensable.

Years	Labour Force
2011	26.285.363,00
2012	26.780.195,00
2013	27.839.270,00
2014	28.689.600,00
2015	29.780.340,00
2016	30.831.360,00
2017	31.954.592,00
2018	32.826.049,00

Table 16 Total Labor Force

(Source: Data received from TUIK, graph own evaluation)

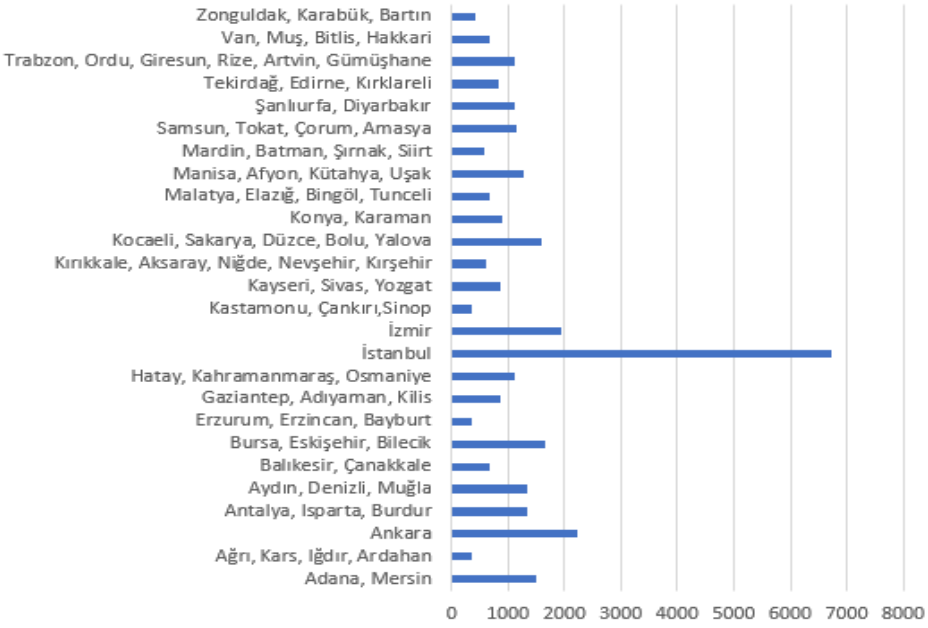

Figure 30 Distribution of labour force

(Source: Data received from TUIK, graph own evaluation)

In 2018, Istanbul had the highest workforce numbers. The Ankara and İzmir subregions exhibited notably higher numbers, which is consistent with their larger populations. The primarily young demography of Turkey indicates that its workforce, which is both youthful and diversified, may be an attractive characteristic for potential investors. Figure 5.10 displays the distribution of the labor force across different age groups, each group consisting of individuals

aged 15 and above, presented in thousands. Moreover, Turkey possesses a substantial youthful demographic. As a result, investors may find Turkey's young and diversified workforce to be advantageous.

4.5.10 Harbours

Harbors have a considerable influence on the appeal of coastal areas for international transportation and the attraction of Foreign Direct Investments (FDIs). Istanbul serves as a perfect illustration of this due to its strong transport capabilities. This fact is clearly demonstrated by the focus on investments in the transportation sector in Istanbul. In addition, harbors have a good impact on transportation and can also significantly influence investment decisions. The sheer existence of harbors, particularly in conjunction with Organized Industrial Zones, can be enough to attract investments in specific subregions. In this study are analyzed both the existence and quantity of harbors.

The following table provides a detailed breakdown of the total number of harbors in provinces located inside coastal subregions.

Provinces	Number of Harbour
Istanbul	8
Tekirdağ	3
Balıkesir	8
İzmir	5
Muğla	7
Bursa	1
Kocaeli	5
Antalya	4
Adana	6
Hatay	1
Zonguldak	3
Kastamonu	2
Samsun	1
Ordu	9

Table 17 Number of Harbours

(Source: Data received from TUIK, graph own evaluation)

4.5.11 Organized Industrial Zones

The presence of network effects plays a crucial role in the investment decisions of international enterprises. The close proximity to other firms provides numerous operational advantages, which are additionally promoted by government incentives. These advantages, consequently, have a beneficial impact on the investment choices of multinational enterprises (MNEs).

Indeed, organized industrial zones are aimed to create an investor-friendly environment for firms, providing them with readily available infrastructure and social facilities. The current infrastructure available in OIZs encompasses roadways, water supply, natural gas distribution, electricity provision, communication networks, waste management, and additional services. Turkey's 346 Organized Industrial Zones (OIZs) in 81 cities account for over one-third of the country's exports and provide jobs for 2.1 million workers, which is over one third of the entire industrial workforce in the nation.

Moreover, the decision-making process for organizations entails the integration of multiple aspects, rather than relying on a single factor alone. Despite the presence of six Organized Industrial Zones, the Mardin, Batman, Şırnak, Siirt subregion did not receive any Foreign Direct Investment (FDI) over the years specified in Table 7. This highlights the intricate nature of investment dynamics in this area.

SubregionCode	Subregion Name	Organized Industrial Zone Number
TR42	Kocaeli, Sakarya, Düzce, Bolu, Yalova	31
TR33	Manisa, Afyon, Kütahya, Uşak	24
TR41	Bursa, Eskişehir, Bilecik	24
TR21	Tekirdağ, Edirne, Kırklareli	19
TR83	Samsun, Tokat, Çorum, Amasya	17
TR31	İzmir	13
TR51	Ankara	12
TR63	Hatay, Kahramanmaraş, Osmaniye	12
TR90	Trabzon, Ordu, Giresun, Rize, Artvin, Gümüşhar	12
TR32	Aydın, Denizli, Muğla	11
TR71	Kırıkkale, Aksaray, Niğde, Nevşehir, Kırşehir	11
TR52	Konya, Karaman	10
TR82	Kastamonu, Çankırı,Sinop	10
TRC1	Gaziantep, Adıyaman, Kilis	9
TR72	Kayseri, Sivas, Yozgat	9
TR10	İstanbul	8
TR61	Antalya, Isparta, Burdur	8
TRB1	Malatya, Elazığ, Bingöl, Tunceli	7
TRC2	Şanlıurfa, Diyarbakır	7
TR22	Balıkesir, Çanakkale	7
TRC3	Mardin, Batman, Şırnak, Siirt	6
TRA1	Erzurum, Erzincan, Bayburt	5
TRA2	Ağrı, Kars, Iğdır, Ardahan	5
TRB2	Van, Muş, Bitlis, Hakkari	5
TR62	Adana, Mersin	5
TR81	Zonguldak, Karabük, Bartın	4

Table 18 Number of 'Organized Industrial Zones'

(Source: Data received from TUIK, own evaluation)

While Istanbul remains the top destination for Foreign Direct Investment (FDI), it has a lower number of organized zones compared to certain other subregions, as seen in Table.7. Nevertheless, this does not pose a drawback for Istanbul since its current zones are adequate for MNE investment choices. This emphasizes that although the number of zones plays a role,

it is not the only factor that determines the influx of foreign direct investment (FDI). The claim that the Kocaeli, Sakarya, Düzce, Bolu, Yalova subregion should receive more investments just based on having the most zones is erroneous, since there are other variables that need to be taken into consideration. Although Istanbul has a smaller number of zones, it may provide other appealing circumstances for investment.

An extensive analysis of the workforce in Turkey, using detailed data collected by the Turkish Statistical Institute, reveals significant variations in labor dynamics and attractiveness to foreign direct investment (FDI) across different sub-regions of the country. Regions characterized by strong labor participation, employment rates, and low unemployment rates are considered more appealing to external investors. This scenario demonstrates a well-functioning and dynamic economic structure that possesses the capacity to ensure market stability and offer growth prospects. These factors are crucial for investors seeking dependable and fruitful markets.

The correlation between labor market conditions and investment attractiveness is significant since it not only indicates the availability of a skilled and employed workforce, but also provides a broader indication of the overall economic well-being of the region. Regions with active workforces and strong integration into the economy will demonstrate higher economic resilience and have the ability to attract capital investments, which in turn will lead to increased job possibilities and foster a positive cycle of economic progress.

The purpose of the workforce analysis is to highlight the essential features of the labor market in Turkey, particularly as a crucial tool for multinational companies making strategic decisions during expansion or when entering the Turkish market. However, in several instances, the profitability of an investment and the region's capacity to attract and retain a skilled and motivated workforce are often the determining factors. This component is particularly important for sectors that have a high level of knowledge intensity, where advanced and specialized skills can significantly impact the outcome of a business initiative, determining whether it succeeds or fails.

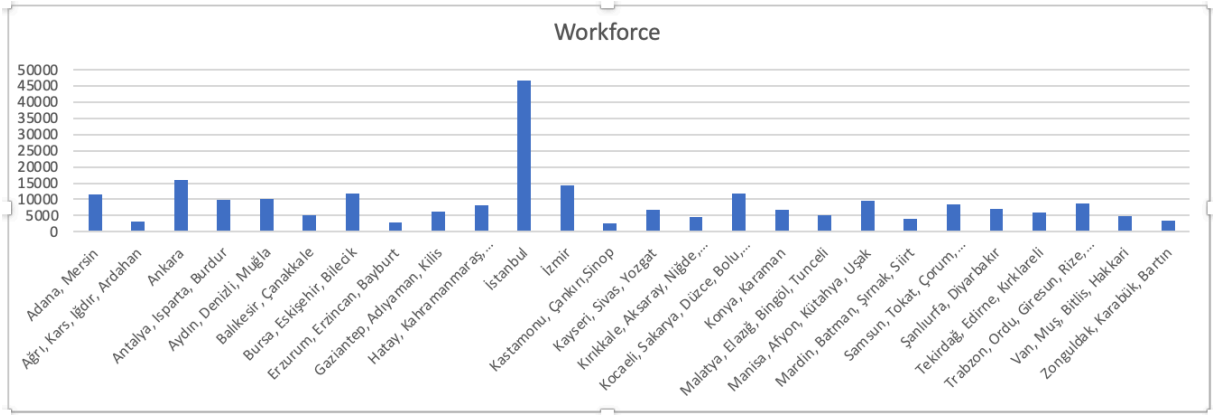

Figure 31 Workforce

(Source: Data received from TUIK, own evaluation)

Figure 5.11 shows that Istanbul (just above 450,000 workers), Ankara(150,000 workers) and Izmir (just belove 150,000 workers) are the subregion with the highest number of workers in the whole country.

5 Analysis and Results

5.1 Conditional Logit Model

Given the limitations of econometrics in seeing every aspect influencing human behavior, a statistical assumption of individual choice behavior should be made using data gathered from a population sample (McFadden, 1973). A discrete economic model called conditional logit was developed by McFadden (1973) and is applied in locational choice research.

Based on a model like the logistic regression, McFadden (1973) created the conditional logit model. The distinction is that before expressing a choice, each person is exposed to a variety of circumstances (represented by a binary variable that serves as the dependent variable). The conditional logit model considers the fact that the same individuals are used. In addition to that, the observation are not independent within a block corresponding to the same individual. Indeed, instead of having one line per individual like in the classical logit model, there will be one row for each category of the variable of interest, per individual.

The probability that individual i chooses product j is given by:
$Pij = e\beta Tzij / \Sigma k e\beta Tzik$

From this probability, we calculate a likelihood function:
$l(\beta) = \Sigma i=1..n \Sigma j=1..J \; yij \log(Pij)$
With y being a binary variable indicating the choice of individual i for product j and J being the number of choices available to each individual.

It aims to maximize the likelihood function in order to estimate the model parameters β (the coefficients of the linear function). There isn't a precise analytical answer, in contrast to linear regression. Consequently, an iterative algorithm must be used.

Based on random utility maximization, this model is especially helpful for analyzing the investments made by multinational enterprises (MNEs) in certain subregions. The conditional logit model differs from typical logistic regression in that it emphasizes the attributes of the several alternatives that are presented to entities, as opposed to the specific attributes of the entities themselves.

5.2 Variable of the model

The initial sections of the paper provided an introduction to the background of Foreign Direct Investment (FDI), with a comprehensive summary of pertinent literature pertaining to the topic. The next parts will focus on doing an empirical analysis of the data and presenting the resulting findings. The primary source of data gathering was the FDI Markets database of the Turkish Statistical Institute (TUIK), which provides information on 1192 investment projects throughout Turkey. Every entry includes detailed data and in particula "Admin region" in FDI

Markets to align with the NUTS-2 level. This level of granularity is deemed suitable for our analysis, since it fairly posits that investors may be swayed in varying ways by the distinct attributes of each administrative region in Turkey.

In Turkey, NUTS 2 refers to a classification system that groups provinces together based on geographic, socio-economic, and historical criteria. These clusters create areas characterized by their uniformity in response to these requirements. Employed in this analysis, NUTS 2 areas facilitate the comparison of regional data and overarching patterns throughout Turkey. They have a vital function in conducting regional statistical analysis and monitoring economic and social trends. Moreover, they play a crucial role in the strategic formulation and execution of regional policies, especially those related to the distribution of both domestic and global funding. The NUTS 2 levels play, also, a vital role in collecting and examining regional statistical data, which is critical for effectively managing and improving the economic and social conditions of different locations in the country. While it is acknowledged that regional data may not capture the specific characteristics of individual cities within those regions, such as infrastructure, this study does not delve into the detailed analysis of these differences at the NUTS3 level. NUTS 2 contained 26 regions. However, developing the analysis, it is found that 3 regions were not subjected to FDIs between 2011 and 2018, they are: TR81, TRA2, TRC3. The last one demonstrated how much political stability is important. Indeed, it was not subjected to investments due to political instability of the subregion, being the subregion with the highest number of Kurds who are a people known to want independence and perpetrators of many attacks.

The following variables are used in the model:

- **Population**
  It is represented by "lpop" so that the logarithm of the amount of the Turkish population in a specific subregion grouped by age and gender according to the Address Based Population Region.
- **Wage**
  This variable is created using the PCA (Principal Components Analysis) and predicts the wage of workers of a specific subregion. It is composed by:
  - Financial_wage: This data category pertains to local business entities that are active in financial service operations, with the exception of those operating in the insurance and pension fund sectors. The emphasis is placed on the employment metrics and the arrangement of compensation within these units. The primary financial measure disclosed in this report is 'Salary and wages,' denominated in 1000 Turkish Lira (TL) units.
  - Credit_wage: This data category specifically targets the local operational branches or units of credit institutions, including banks, credit unions, and other permitted entities that offer financial credit. The dataset precisely monitors indicators pertaining to employment and the remuneration packages within these entities. The primary kind of remuneration data given here is referred to as 'salary and wages', and it is expressed in units of 1000 Turkish Lira (TL).

- Auxiliary_wage: This data category pertains to local entities engaged in supplementary operations associated with the financial services and insurance sectors. These ancillary activities encompass services such as risk assessment, brokerage, actuarial services, and claims adjustment, which provide assistance to the core operations of financial and insurance companies. The information focuses on employment indicators and remuneration arrangements within these support units. The main types of remuneration documented are 'salary and wages', which are specified in 1000 Turkish Lira (TL) increments.
- Insurance_wage: This data category specifically pertains to local units that are actively involved in the insurance and reinsurance industry. These entities can vary in size from small agency to major organizations that offer a wide range of insurance services, such as life, property, health, and liability insurance. They also provide reinsurance, which is insurance bought by insurance firms to reduce their own risk. The dataset focuses on employment statistics and the remuneration systems within these organizations. The term 'Salary and wages' refers to the main data on compensation, which is expressed in units of 1000 Turkish Lira (TL).

Although this variable has some missing values, it is considered that it is so important to be omitted in the analysis

- **Employment Rate:** This variable shows the percentage of people aged 15 and over who are employed. It includes anyone who worked for pay or profit or was temporarily away from their job between 2011 and 2018.
- **Harbour:** It is a dummy variable which is equal to 1 (true) if there are harbours in that specific region, and 0 (false) if are not.
- **Infrastructure** This variable is created using the PCA (Principal Components Analysis) and predicts the infrastructure of a specific subregion. It is composed by
  - Highway_km = this data category represent the total length of highway roads.
  - Cargo_airport= indicates the aggregate number of cargos transported by aircraft during both landings and takeoffs at airports, encompassing both domestic and international transportation routes.
- **Organized Industrial Zones:** It is represented by the variable "OIZ_n" which is the total number of organized industrial zones in a specific subregion.
- **Choice**: dependent variable which explains if the subregion is chosen for the investment.

The reader may note that some variables discussed in Section 4.5 are absent from the regression analysis. This omission is due to high correlations and lack of statistical significance for this specific analysis. Including two correlated variables within the same specification, along with the use of variables that are not statistically significant, could result in biased coefficients. However, given that these variables were provided, the author of this document has chosen to describe them to ensure transparency and accuracy.

5.3 Results

The results were derived by examining the aforementioned variables with the conditional logit model. This model was created and assessed using the STATA Analytics software. Conditional logit regressions were conducted, and the coefficients and p-values of each variable were analyzed to interpret the results.

	(1)	(2)	(3)	(4)	(5)	(6)
choice						
lpop	1.588***	2.795***	3.294***	2.131***	3.313***	2.980***
	(0.0388)	(0.141)	(0.164)	(0.104)	(0.181)	(0.185)
wage		-0.238***	-0.326***		-0.367***	-0.174***
		(0.0250)	(0.0284)		(0.0398)	(0.0441)
employment~e			0.0977***		0.0713***	0.0187
			(0.0131)		(0.0147)	(0.0153)
harbour				0.911***	0.765***	0.674***
				(0.0904)	(0.0992)	(0.0991)
infra				-0.271***	0.0269	-0.122**
				(0.0366)	(0.0510)	(0.0519)
OIZ_n						0.0591***
						(0.00507)
N	24794	19382	19382	24794	19382	19382

Standard errors in parentheses
* p<0.1, ** p<0.05, *** p<0.01

Table 19 Results (1)

(Source: STATA, own evaluation)

Table 17 presents the results of the Conditional Logit Model for the period 2011-2018. The first column lists all variables described in Section 5.2, while the coefficients indicate whether each independent variable is positively or negatively correlated with the dependent variable.

The variable lpop shows a positive sign, suggesting that larger populations enhance the attractiveness of investments in that subregion. Conversely, wage is negatively correlated, as expected, indicating that lower wages make the subregion more attractive for investments. This suggests that lower labor costs reduce upfront expenses for foreign companies.

The variables employment_rate and harbors are both positively correlated, implying that higher employment rates and the presence of harbors increase a subregion's investment appeal. Employment opportunities and port facilities positively influence investors' perceptions and decisions when evaluating a location's investment potential. High employment rates indicate a robust local labor market and a wealthier population, which, in turn, boosts demand for goods and services. However, different authors have presented varying findings in Section 4.2. For instance, studies by Hisarcıklılar et al. (2009), Göçer and Peker (2014), Dalgıç and Fazlıoğlu

(2015), Dalgıç et al. (2016), and Bayar and Şaşmaz (2017) have shown that FDI increases employment. Thus, this variable not only attracts FDI but also boosts employment rates. Conversely, research by Karagöz (2007), Ayas and Vergil (2009), Saray (2011), Sandalcılar (2012), Üçler et al. (2013), Doğan and Can (2016), Aktakas and Tekin (2017), Erçakar and Güvenoğlu (2018), Oğuz (2018), and Mehman; Dolgos; Annet, and Palvin (2020) has demonstrated that FDI can cause unemployment or significantly reduce employment. Ports also enhance regional integration into the global economy by improving logistics efficiency and facilitating the import and export of materials and finished goods, which lowers company expenses and fosters industry clusters. These clusters spur innovation and investment, positioning the region as a strategic economic hub.

The variable infra displays a complex relationship, being negatively correlated without statistical significance. This suggests that infrastructure like highways and air cargo facilities in Turkey are already adequate for operational needs, making them less decisive in investment decisions. However, they are essential for the analysis; for instance, the subregion TR81 faced investment challenges due to transportation issues, as discussed in Chapter 2.5.4.

Lastly, OIZ_n is positively correlated as expected. Organized Industrial Zones (OIZs) enhance investment appeal by providing ready infrastructure and streamlined administrative processes. These zones foster economic concentration, enabling businesses to benefit from efficient distribution networks, proximity to local suppliers, and a skilled workforce. Furthermore, OIZs significantly reduce logistical complexities and costs for emerging enterprises, making them ideal locations for innovation and startups.

More in-depth, the first regression includes only the lpop variable with choice. As previously analyzed, they are positively correlated, and the coefficient is statistically significant at the 99% level. The fact that a more populous country attracts more FDIs was demonstrated by Berköz and Türk (2010) and Alper and Oransay (2016), as reported in Section 4.3.

The subsequent regressions introduce additional variables, analyzing their impact on the choice. In these models, despite the introduction or exclusion of other variables, the significance of the influential factors remains unchanged, thereby confirming the model's stability.

	(1) UE	(2) noUE
choice		
lpop	3.062***	2.912***
	(0.275)	(0.251)
wage	-0.151**	-0.199***
	(0.0637)	(0.0613)
employment~e	0.0225	0.0170
	(0.0227)	(0.0208)
harbour	0.776***	0.572***
	(0.142)	(0.139)
infra	-0.222***	-0.0227
	(0.0742)	(0.0730)
OIZ_n	0.0655***	0.0528***
	(0.00721)	(0.00715)
N	9328	10054

Standard errors in parentheses
* p<0.1, ** p<0.05, *** p<0.01

Table 20 Results (2)

(Source: STATA, own evaluation)

Table 18 presents an analysis of factors influencing investment decisions in EU and non-EU countries. The variables examined—lpop, wage, employment rate, harbor, infra, and OIZ_n—are consistent with previous studies. (Source: STATA, own evaluation). The EU countries included are Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, and the United Kingdom. All other countries are categorized as non-EU.

The results indicate that lpop, employment rate, harbor, and OIZ_n all have positive coefficients, suggesting a positive correlation with investment choices. Notably, lpop, harbor, and OIZ_n exhibit statistical significance at the 99% level. However, the employment rate does not show significant positive correlation, which may be attributed to the short-term nature of the data from 2011 to 2018. A longer-term analysis might reveal this variable to be statistically significant due to a greater impact over time.

Conversely, wage and infra have negative coefficients, indicating a negative correlation with investment choices in both EU and non-EU countries. The wage variable is statistically

significant at the 95% level for EU countries and 99% for non-EU countries. However, infra shows statistical significance only in EU countries and lacks significance for non-EU investors in this model. This may be due to varying perceptions, strategic objectives, or the presence of other factors that more directly or visibly influence investment decisions in Turkey.

6 Conclusions

Foreign direct investments (FDI) are crucial for enhancing the economies of both emerging and industrialized nations. This dissertation investigates the factors influencing Multinational Enterprises' (MNEs) investment decisions across different regions of Turkey from 2011 to 2018. A conditional logit model was employed to assess how local factors affect these regions' attractiveness to foreign investors, using a dataset of 1,192 individual investment cases.

The findings confirm that factors such as population, wages, employment rates, the presence of harbors, efficient infrastructure, and Organized Industrial Zones significantly influence MNEs' choices on where to make FDIs. Wages are particularly critical, especially for non-EU countries, likely because most non-EU countries have lower labor costs than Turkey, thus affecting their investment choices.

The literature suggests that employment rates are essential for analyzing FDIs; however, due to the short period analyzed, this variable did not significantly impact the investment choices of EU and non-EU countries. This is illustrated by the subregion TRA2, which, having a high unemployment rate, failed to attract any investments.

Infrastructure behavior varies, proving statistically insignificant for non-EU countries. It is noted in the literature that investors require a baseline level of infrastructure. For most non-EU countries, this criterion is met even though these countries generally have lower levels of infrastructure. Moreover, meeting this baseline is crucial; if not met, the subregion, such as TR81, is unlikely to be chosen for investment.

Population size, Organized Industrial Zones, and harbors are vital for both EU and non-EU countries, significantly impacting MNEs' decisions on investing in Turkey and its various subregions.

Furthermore, political stability is a key criterion; without it, neither the subregion nor the country is likely to be chosen by MNEs for making FDIs, as seen with subregion TRC3. This finding is also supported by the literature review.

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