Chapter 9

Foreign Direct Investment Literature Review: A Specific Focus on Turkey

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Abstract

This study examines the literature on foreign direct investment (FDI) by looking into the determinants, effects, types, and development of FDI globally, with a specific focus on Turkey. Based on the literature, we can observe that there are multiple determinants of FDI, such as GDP, market growth, market size, and labour cost. Moreover, this study examines the positive and negative effects that FDI has on the host country. The benefits that come with an increase in FDI are economic growth, productivity growth, an increase in technological advancements, and a decrease in the poverty rate. The evidence provided by the literature shows that the benefits of FDI outweigh the negative impacts that FDI could have on the host country. Additionally, the study shows the history of the development of FDI in Turkey by examining the reasons for the low rate of FDI inflows into Turkey's economy before 1980 and how, after 1980, Turkey began introducing laws to encourage and motivate foreign investors to bring their capital into the Turkish economy. Furthermore, the study includes data about global FDI inflows and outflows and the development of global FDI from 2005 to 2022 and analyses the reasons why developed countries like the USA, China, and the United Kingdom receive much higher rates of inward FDI compared to developing economies. To conclude, the literature on FDI provides evidence on why FDI is important for many countries and why the majority of countries are looking into methods and strategies to increase the inflow of FDI into their economies.

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1. Introduction

Foreign direct investment has been a topic of interest for many scholars since the first research that analysed the consequences of FDI in the United Kingdom (Dunning, 1958). Since then, similar research has been done in various countries about foreign direct investment, by focusing on its determinants and effects.

The increase in interest in foreign direct investment and its growth can be seen in the post-World War II period, when FDI growth was fuelled by the improvement of communications and transportation, which aid in exercising control from a distance. Moreover, Japan and Europe needed USA's capital to finance the reconstruction of their countries. By 1960, host countries began recovering, and FDI outflow from the United States began to slow down; simultaneously, FDI inflow into the USA increased. In the 1980s, two important developments occurred. First, the emergence of Japan as a home country for FDI flows to Europe and the USA. Second, the USA became a net recipient of FDI. In the 1990s, Japan's FDI began to decrease. Additionally, mergers and acquisitions became a main source of FDI. In recent times, most countries, especially developing countries, have focused on increasing inward FDI into their economies, expecting economic growth from the additional capital that comes with FDI. The main reasons that make FDIs attractive to those nations are the increase in technological advancements, the improvement in overall knowledge, and increase in R&D. The improvement of those aspects for the host countries lead to an increase in productivity and economic growth. FDI could also aid access to foreign markets when the host country is the main distributor of the goods in the region, and that would allow the host country to be used as an export platform. (Feeny et al., 2014)

Various research has analysed the relationship between FDI and economic growth and whether FDI is a significant factor in the economic growth or not. FDI theories have been evolving over time, and each theory presents a different point of view on FDI.

2. The Concept of FDI

Emerging economies and developing countries are adopting policies in order to increase FDI and enhance economic growth. Foreign investments are divided into two categories, which are FPI and FDI. FPI, which is foreign portfolio investment, is considered as foreign investments that are in equity and debt securities by taking additional risk, such as exchange rate risk and international political risk (OECD, 2008). Foreign direct investment (FDI) is the process through which foreign investors purchase

assets in the host nation in order to control the manufacturing, distribution, and other operations of a corporation in the host country (Moosa, 2002). The investors' goal through FDI is to gain a vote in the management of the company. The main aspect of FDI that differentiates it from FPI is that FDI's purpose is to have control over an enterprise.

3. Determinants of FDI

FDI's determinants have been a topic of great interest to researchers. Dunning's (1981, 1988) eclectic theory might be the most relevant theory to the reasons for FDI flows (Khadaroo and Seetanah, 2011; Sawkut et al., 2009). The eclectic theory claims that FDI is determined by three sets of advantages: internationalisation advantages, ownership advantages, and locational advantages. The Economic Survey of Europe (ESE, 2001) reports that economic fundamentals, including the degree of political and macroeconomic stability and growth prospects, heavily influence FDI flows. Additionally, according to ESE (2001), FDI prefers to go to nations that have a sound legal system, a skilled labour force, and a liberalised foreign sector. According to ESE (2001), the location, the size of the market, and the host country's natural resources are all significant factors in influencing the amount of FDI. The most often used variable in empirical studies of FDI and a crucial factor in FDI has been the GDP of the host economy. One of the prerequisites for achieving optimal resource utilisation and economies of scale is a large market (Scaperlanda and Mauer, 1969). Greater potential demand and cheaper costs in relation to scale economies may be related to bigger host nations' marketplaces for foreign direct investment. Various studies highlight how market size, measured by GDP, GNP, GDP per capita, or GNP per capita, has a positive effect on inward FDI (Dunning, 1980; Nigh, 1985; Pearce and Pappanaatassiou, 1990; Sader, 1993; Tsai, 1994; Billington, 1999; Pistoresi, 2000).

Labour costs are another factor that researchers investigate as a determinant of FDI. Having higher labour costs should reduce FDI in a country because foreign investors usually look for low-cost opportunities in developing countries. On the other hand, low costs in developing countries could refer to other higher costs, not including labour costs, such as transportation costs and low productivity (Miller, 1993). The evidence of the influence of labour costs on FDI varies; Tsai (1994) study reveals that wages has no effect on FDI. Love and Lage-Hidalgo (2000), and Swain and Wang (1997) results showed that high wages do not always have a negative effect on FDI, and in some industries, the studies showed that higher wages actually improve FDI. Flamm (1984), Schneider, and Frey (1985) studies resulted in a negative impact of labour costs on FDI.

When it comes to the effects that exchange rates have on FDI, having a weak currency in the host country could increase FDI because investors will have a strong purchasing power in the host country (Walsh and Yu, 2010). Froot and Stein's (1991) study shows that an appreciation of the host country's currency leads to a decrease in FDI, whereas a depreciation in the host country's currency leads to an increase in FDI (Love and Lage-Hidalgo, 2000; Blonigen and Feenstra, 1996). On the other hand, Campa (1993) study shows that there is a positive relation between FDI and the host countries currency appreciation.

3.1. Determinants of FDI in Turkey Market Literature

Determinants of FDI in Turkey are also analysed in various research studies. Eryiğit and Eryiğit (2008) study showed that GDP, employment, and budget deficit are the determinants of FDI in the Turkish economy. Erdal and Tatoğlu (2002) and Yapraklı (2006) studies demonstrate the effect of openness. Vergil and Çeştepe (2006) measure the effect of openness and exchange rate. Özer and Saraç (2008) found positive relationship between the increase in the exchange rate, per capita GDP, and FDI. All the above-mentioned studies show significant determinants of FDI inflows to Turkey. On the other hand, there are also variables that have negative effects on the FDI inflows to Turkey, such as labour cost (Kar and Tatlısöz, 2008; Yapraklı, 2006), interest rate and long distance (Eryiğit and Eryiğit, 2008), economic instability (Vergil and Çeştepe, 2006), exchange rate (Erdal and Tatoğlu, 2002, Yapraklı, 2006), exchange rate instability (Erdal and Tatoğlu, 2002), GDP deflator and openness (Özer and Saraç, 2008).

4. Foreign Portfolio Investment (FPI)

Foreign portfolio investment (FPI) is defined as the financial assets that are acquired by foreign investors. Although FPI is considered liquid, it does not give investors ownership of the company's assets. Along with FDI, FPI is considered one of the main methods for investors to invest in foreign countries. Moreover, both FDI and FPI are considered as the main sources of financing for countries, especially emerging economies. FPI has been heavily researched; the determinants of both FDI and FPI have been a topic of interest for many years. The relationship between interest rate and FPI has been analysed by many scholars, but the most relevant ones are Eratas and Oztekin (2010), Verma et al. (2011), and Onuorah and Akujuobi (2013). In all these studies, the effect of interest rates on FPI was positive. Another variable that scholars looked into was the effect of economic growth on FPI studies. Kinda (2012), Gumus et al. (2013), and

Garg et al. (2014) found that economic growth has a positive impact on FPI. Yıldız (2012) examined budget balance and current account balance effects on FPI. Gumus et al. (2013) and Korap (2010) studies results showed that budget balance and current account balance have a positive effect on FPI. However, Yıldız (2012) found a negative effect of current account balance on FPI. Gabor (2011) studied the effect that emerging market stock returns have on FPI for three emerging economies; Turkey, Hungary, and Poland, for different time periods. The results of the study showed that emerging market stock returns have a positive effect on FPI for three countries. Yıldız (2012) examined the variables that affect foreign portfolio investments by using multiple regression models for the time period of 1999–2009. The results of the study showed that stock returns for Borsa Istanbul and Dow Jones have positive effects on FPI. Hooper et al. (2007) investigated the effects of the opacity of the recipient countries and GDP on FPI. The results showed that opacity and GDP have positive effects on FPI.

5. Inward and Outward FDI

FDI can be classified as outward FDI and inward FDI. Outward FDI is when domestic investors seek investments outside of the country to acquire foreign resources. However, when it comes to developing countries, outward FDI is not attractive because of the negative effects that outward FDI has on the host country. Additionally, FDIs are categorised into four types: "mergers and acquisitions", "horizontal FDI", "vertical FDI", and "greenfield FDI". Greenfield FDI is the most beneficial out of the 4 types of FDI. Greenfield FDI increases production facilities in the host country and expands the existing production facilities through the introduction of new technological advancements. Moreover, it increases employment in the host country and research and development activities (Mucuk, 2011). Mergers and acquisitions are when foreign investors purchase domestic companies in the host country. Horizontal FDI is when investors set up a company in a foreign country, but the newly established company is similar to the ones they have in their home countries. Vertical FDI is when a multinational company obtains an operation in a foreign country that aids the company in the supply and distribution aspects of the business. The tendency of FDI to a country depends on multiple economic factors, which are market growth, market structure, market size, labour productivity, labour cost, wages, human resources, trade restrictions, FX rates, inflation, cultural factors, tariffs, growth rate, openness, costs of transport and communication, investment tax, investment incentives, domestic investments, and infrastructure (UNCTAD, 2006; Kok and Ersoy, 2009). Additionally, the factors that make countries appear attractive and increase FDIs are: a

cheap labour force, a large market, incentives provided by public authorities, stable currency, a stable inflation rate (which diminishes economic uncertainty and risk), a high amount of skilled labour supply, affordable energy, natural resources, and geopolitical advantages. Based on this, the advantages of FDI are as follows: a strong balance of payments, economic growth, employment and wage growth, productivity growth, advancements in technology, and a decrease in the poverty rate. On the other hand, FDI does have negative effects on the host country, which are cultural changes, technological dependency, intervention in national issues, reduction of tax revenues, balance of payment issues, and environmental pollution (Mucuk, 2011).

5.1. Global inward and outward FDI

The effect that inward FDI has on the host country's economy comes primarily from the foreign investor's transfer of technology into the host country by means of capital flow; the increase in product and service quality; and the overall price of the products decrease due to the increased competition in the market. This results in an increase in consumer prosperity. Moreover, inward FDI increases the capital stock of the host country while simultaneously increasing the total output of the host country. Recent studies have shown that domestic investments have been replaced by capital inflows. Additionally, foreign-owned firms attract highly qualified workers, because foreign-owned firms have the ability to pay higher wages compared to domestic-owned firms, which results in lower-quality workers working in domestic firms. In this context, the amount of total output declines in the host country, which has a detrimental impact on its economy (Lipsey and Sjoholm, 2005). As countries began expanding internationally in the 1990s, privatisation, international capital movements, and mergers and acquisitions are increased, and those factors had a positive impact on FDI, as shown in Figure 1 (Yukseler, 2005).

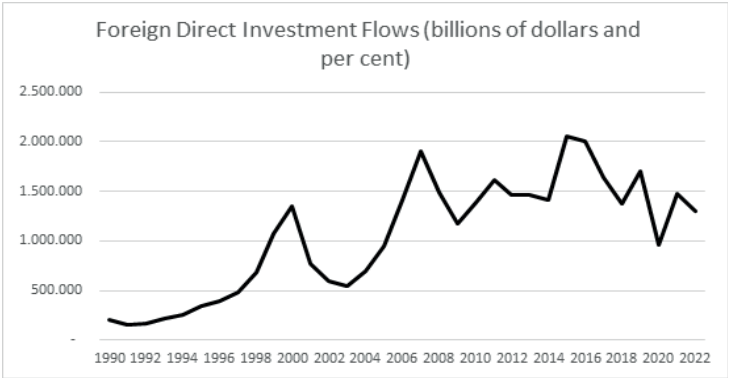

Figure 1 Foreign Direct Investment Flows (UNCTAD, 2022)

Table 1 Global Inward FDI (2005-2022) (OECD, 2023)

Country	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Argentina	5,265	5,537	6,473	9,726	4,017	11,333	10,840	15,324	9,822	5,065	11,759	3,260	11,517	11,717	6,649	4,884	6,903	15,408
Australia	-24,797	30,372	44,657	46,963	27,417	35,174	65,324	57,423	54,853	63,685	46,857	43,013	48,124	60,269	38,864	15,707	25,676	67,179
Austria	10,778	4,888	25,492	7,254	9,397	2,728	10,820	4,003	5,813	4,800	1,295	-8,401	14,926	5,512	4,783	-9,275	13,526	1,983
Brazil	15,066	18,822	34,585	45,058	25,949	77,687	97,422	82,060	59,089	63,846	49,961	53,700	66,585	59,802	65,386	28,318	50,651	86,050
Canada	25,693	60,298	116,809	61,520	22,733	28,399	39,667	43,118	69,371	59,008	43,853	36,062	22,764	37,654	50,535	26,883	65,678	49,630
Chile	7,462	7,586	13,475	18,473	13,855	16,020	25,565	26,708	26,303	25,566	19,764	10,523	6,695	13,031	14,403	10,833	13,194	19,786
China	104,109	124,082	156,249	171,535	131,057	243,703	280,072	241,214	290,928	268,097	242,489	174,750	166,084	235,365	187,170	253,096	344,075	180,167
Colombia	10,235	6,751	8,886	10,564	8,035	6,430	14,647	15,040	16,210	16,169	11,621	13,858	13,701	11,299	13,990	7,459	9,561	16,869
Costa Rica	1,364	1,702	2,088	2,320	1,444	1,684	2,461	2,258	2,741	2,927	2,752	2,204	2,778	2,487	2,812	1,757	3,360	3,418
Czechia	11,654	5,465	10,446	6,449	2,929	6,147	2,323	8,000	3,641	5,492	465	9,814	9,518	11,010	10,109	9,411	9,049	9,856
Denmark	8,614	9,161	7,233	-668	1,428	-9,179	11,457	644	1,045	4,680	3,617	235	3,771	1,716	7,073	1,356	8,540	3,233
Estonia	2,798	1,335	2,312	1,826	1,840	1,509	1,006	1,566	771	684	36	1,058	1,947	1,516	3,196	3,467	188	822
Finland	4,749	7,655	12,452	-1,124	718	7,359	2,552	4,156	-106	18,548	2,110	8,576	2,858	-2,170	13,455	-1,576	13,804	8,374
France	33,209	25,340	63,511	37,521	30,735	13,891	31,671	16,069	34,264	2,669	45,355	23,055	24,780	41,807	13,100	11,334	30,881	36,365
Germany	47,421	55,686	80,227	8,114	23,807	65,646	67,573	28,190	12,771	-471	20,335	22,658	48,287	71,978	52,682	56,076	46,462	11,039
Greece	623	5,358	2,112	4,490	2,437	330	1,144	1,741	2,817	2,683	1,268	2,762	3,477	3,971	5,019	3,205	6,327	7,593
Hungary	7,711	6,817	3,952	6,397	2,175	2,355	6,553	14,625	3,587	7,967	-14,545	-5,439	3,514	6,460	4,257	7,047	7,558	8,957
Iceland	3,076	3,858	6,822	919	79	245	1,107	1,025	397	447	709	-427	-41	-382	-225	-928	153	620
India	7,606	20,336	25,483	47,472	35,582	27,397	36,497	23,995	28,153	34,577	44,009	44,459	39,966	42,117	50,610	64,362	44,727	49,886
Indonesia	8,337	4,914	6,929	9,318	4,878	13,771	19,241	19,138	18,817	21,811	16,641	3,921	20,579	20,563	23,883	18,591	21,131	21,741
Ireland	-31,670	-5,545	24,712	-16,421	25,717	42,807	23,566	48,901	50,585	48,186	217,820	39,377	52,722	-12,512	158,489	82,122	15,926	1,488
Israel	4,819	14,396	8,798	10,275	4,607	6,985	8,653	9,018	11,842	6,049	11,336	11,988	16,893	21,515	17,363	23,109	21,486	27,869
Italy	19,960	39,259	40,209	-10,814	20,078	9,179	34,355	93	24,267	23,224	19,631	28,441	23,996	37,659	18,145	-23,568	-8,954	19,920
Japan	2,778	-6,503	22,548	24,418	11,939	-1,252	-1,757	1,732	2,303	10,622	-2,251	19,357	9,354	9,961	13,751	11,770	33,925	32,526
Latvia	706	1,666	2,324	1,260	-21	420	1,469	1,113	903	896	739	254	744	961	927	1,004	3,320	1,504
Lithuania	1,134	2,024	2,290	1,790	-448	1,020	1,801	802	574	-133	1,055	302	1,019	976	3,022	3,510	2,798	2,103
Luxembourg	5,976	31,802	-28,266	11,194	20,667	35,661	13,302	2,825	23,288	20,034	45,422	17,564	-27,311	-83,285	163,713	9,817	25,119	-358,848
Mexico	25,796	21,233	32,393	29,502	17,850	27,189	25,633	21,769	48,354	30,351	35,944	31,189	34,017	34,100	34,577	28,206	31,554	36,215
Netherlands	39,077	13,901	119,733	5,751	38,748	-7,185	24,391	20,121	51,096	45,018	176,427	59,870	26,797	102,071	15,939	-81,466	-70,230	-79,786
New Zealand	1,204	3,707	3,589	3,117	701	-61	4,229	3,502	1,860	2,437	-311	2,979	2,721	2,297	4,273	3,889	3,992	8,048
Norway	10,341	11,916	23,730	23,619	8,664	21,268	10,693	27,408	-722	2,367	7,345	-18,141	5,961	-5,350	17,018	-4,392	10,602	11,059
Poland	9,723	18,379	21,663	13,857	11,892	12,799	18,290	7,130	2,734	17,509	11,819	17,329	9,507	16,376	13,326	15,274	29,462	29,587
Portugal	3,010	7,477	3,021	2,194	1,342	1,517	5,997	8,157	8,216	4,560	9,180	5,684	6,912	7,175	12,251	7,666	9,614	9,087
Russia	14,375	37,442	54,922	75,856	27,752	31,668	36,868	30,188	53,397	29,152	11,858	37,176	25,954	13,228	32,076	10,410	38,639	-15,447
Saudi Arabia	12,107	18,318	24,334	39,456	36,458	29,233	16,308	12,182	8,865	8,012	8,141	7,453	1,419	4,247	4,563	5,399	19,286	7,886
Slovakia	3,108	5,806	4,018	4,858	-7	1,770	2,146	2,826	-604	-512	106	805	4,008	1,643	2,511	-2,398	59	2,902
Slovenia	561	707	757	1,216	-477	106	1,088	339	-151	1,050	1,675	1,245	896	1,383	1,463	219	1,846	2,037
South Africa	6,683	303	6,764	8,172	8,614	4,015	3,785	4,403	8,296	5,772	1,729	2,235	2,007	5,447	5,125	3,062	40,215	9,231
South Korea	13,643	9,162	8,827	11,188	9,022	9,497	9,773	9,496	12,767	9,274	4,104	12,104	17,913	12,183	9,634	8,765	22,060	17,996
Spain	27,187	32,624	71,660	78,438	13,632	40,331	32,412	24,667	28,342	22,571	8,557	31,538	41,877	57,427	18,526	13,779	18,947	34,162
Sweden	11,627	27,552	28,849	36,855	10,095	141	12,946	16,349	4,125	4,032	8,449	19,153	12,511	3,807	9,991	19,722	20,327	49,677
Türkiye	10,031	20,185	22,047	19,851	8,585	9,086	16,136	13,743	13,565	12,973	18,978	13,653	10,875	12,513	9,553	7,694	11,911	13,117
United Kingdom	182,894	147,396	176,864	91,798	89,796	58,180	42,196	55,626	51,673	24,704	39,189	258,570	96,401	87,818	53,908	58,260	71,180	14,095
United States	116,656	247,328	227,715	318,449	157,737	210,544	242,155	211,467	217,274	211,985	483,849	480,016	325,073	216,415	256,687	113,177	410,778	364,040

Table 2 Global Outward FDI (2005-2022) (OECD, 2023)

Country	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Argentina	1,311	2,439	1,504	1,391	712	965	1,488	1,055	890	1,921	875	1,787	1,156	1,726	1,523	1,177	1,537	2,076
Australia	-32,267	24,061	15,078	30,526	11,933	18,183	8,111	5,752	-441	23,365	7,934	-3,081	9,813	539	9,942	8,161	7,702	119,191
Austria	11,139	12,317	36,077	28,851	11,038	9,548	22,004	13,060	15,598	-665	6,915	-1,323	10,679	5,678	12,633	6,915	18,434	60
Brazil	2,517	28,202	7,067	20,457	-10,084	22,060	11,062	-8,425	-478	-3,261	-11,643	-5,901	19,040	-16,336	19,031	-12,935	20,451	25,242
Canada	27,540	46,215	64,621	79,236	39,660	34,721	52,144	55,875	57,364	60,273	67,467	69,518	76,179	58,036	77,480	42,437	97,003	78,611
Chile	2,135	2,212	4,852	9,151	7,233	9,461	20,252	14,841	14,505	10,118	17,849	7,036	3,992	6,934	11,169	5,783	11,207	11,697
China	13,730	23,932	17,155	56,742	43,890	57,954	48,421	64,963	72,971	123,130	174,391	216,424	138,293	143,027	136,910	153,721	178,798	149,692
Colombia	4,796	1,268	1,279	3,085	3,505	5,483	8,420	-606	7,652	3,899	4,218	4,517	3,690	5,126	3,153	1,733	3,181	3,402
Costa Rica	-15	120	277	80	103	94	133	455	340	109	211	77	126	53	117	112	214	358
Czechia	-19	1,469	1,621	4,322	950	1,168	-328	1,794	4,021	1,620	2,488	2,182	7,557	8,663	4,128	2,989	7,733	2,474
Denmark	13,108	14,408	13,049	15,362	3,690	1,368	11,278	7,349	7,162	8,249	9,424	10,112	10,025	-76	16,844	9,613	29,967	4,263
Estonia	662	1,017	1,684	1,140	1,375	167	-1,455	1,054	516	42	182	486	888	45	1,993	198	-535	797
Finland	4,156	4,800	7,409	9,327	5,597	10,189	5,016	7,546	-2,307	1,743	-16,080	24,252	-575	11,448	4,864	5,844	9,462	11,113
France	68,016	76,810	110,664	103,081	100,872	48,158	51,462	35,453	20,365	49,785	53,206	64,785	35,908	101,978	43,812	21,561	44,667	47,962
Germany	74,498	116,745	169,351	71,370	68,548	125,453	78,002	62,188	39,512	86,603	88,760	70,719	85,894	97,056	151,074	50,510	165,157	142,788
Greece	1,467	4,047	5,247	2,413	2,055	1,558	1,774	678	-785	3,015	1,578	-1,665	168	477	642	547	1,109	2,877
Hungary	2,245	4,437	4,433	2,673	1,881	1,234	4,804	11,802	1,943	3,854	-16,118	-8,272	1,220	3,363	3,180	4,428	4,014	4,293
Iceland	7,084	5,495	10,105	-4,250	2,248	-2,368	18	-3,205	460	-257	-31	-1,147	-208	76	479	-427	-30	-231
India	2,978	14,344	17,281	20,795	16,068	15,968	12,608	8,553	1,765	11,686	7,514	5,047	11,090	11,418	13,141	11,122	17,239	13,988
Indonesia	3,065	2,726	4,675	5,900	2,249	2,664	7,713	5,422	6,647	7,077	5,937	-12,215	2,077	8,053	3,352	4,448	3,845	7,300
Ireland	14,304	15,332	21,150	18,912	26,617	22,350	-1,166	22,557	29,164	41,182	168,443	30,055	-2,043	4,314	34,442	-46,482	62,229	5,332
Israel	2,946	15,438	8,605	7,210	1,751	7,944	7,401	2,276	3,858	4,526	10,969	14,579	7,624	6,087	8,690	4,425	9,456	8,715
Italy	41,795	42,089	90,795	66,870	21,277	32,657	53,677	7,992	25,130	26,327	21,640	16,165	24,478	31,523	19,786	-2,112	27,961	-1,872
Japan	45,830	50,244	73,545	127,981	74,699	56,276	107,550	122,514	135,745	129,157	128,698	155,923	164,563	144,963	232,550	99,720	209,233	161,556
Latvia	128	171	370	244	-63	20	61	193	412	541	70	160	141	207	-103	264	2,321	145
Lithuania	393	309	554	613	555	42	750	541	132	59	377	43	80	704	1,746	2,868	1,323	366
Luxembourg	9,034	7,183	73,363	11,737	6,709	20,842	9,052	-13,402	46,599	43,365	31,912	-1,240	14,987	21,844	176,763	147,675	52,168	-293,804
Mexico	6,469	5,784	9,706	438	9,861	14,560	13,311	22,313	15,459	7,507	10,672	160	3,988	8,365	10,640	2,265	-1,523	14,654
Netherlands	105,999	72,534	55,691	68,345	26,267	68,363	34,818	6,174	69,690	53,951	236,251	183,207	24,810	-44,124	31,022	-173,508	92,364	38,175
New Zealand	-1,339	448	3,223	1,094	-1,001	716	2,682	-433	530	472	-58	196	227	376	-168	546	-1,584	653
Norway	31,744	18,761	23,560	36,107	10,892	29,663	13,007	26,987	12,672	23,392	21,340	6,839	3,325	14,914	7,924	-11,290	20,732	18,325
Poland	2,864	7,660	3,490	3,437	3,657	6,148	3,677	-2,660	-1,346	4,598	1,928	13,122	1,878	1,239	1,674	1,151	1,783	2,226
Portugal	2,626	4,501	7,357	694	878	-10,064	13,627	-8,474	769	-3,260	4,810	879	-928	1,374	4,011	2,521	1,468	2,710
Russia	16,747	29,840	43,849	56,735	34,450	41,116	48,635	28,423	70,685	64,203	27,090	26,951	34,153	35,820	22,024	6,778	64,072	11,480
Saudi Arabia	-350	-39	-135	3,498	2,177	3,907	3,430	4,402	4,943	5,396	5,390	8,936	7,280	19,252	13,547	4,911	23,860	18,826
Slovakia	191	633	674	550	904	946	491	-73	-313	43	6	95	1,323	291	43	347	389	432
Slovenia	628	839	1,579	1,406	214	-19	200	-258	-214	275	267	290	338	281	610	518	1,356	682
South Africa	935	5,891	3,068	-2,781	1,322	-84	-229	2,886	6,646	7,671	5,744	4,474	7,366	4,074	3,147	-1,951	-139	-2,162
South Korea	8,330	12,563	21,831	19,537	17,401	28,222	29,648	30,599	28,318	27,999	23,687	29,890	34,069	38,220	35,239	34,832	66,001	66,408
Spain	43,980	106,110	144,478	76,202	16,334	38,393	45,248	-2,479	14,294	36,743	41,917	43,902	55,926	37,523	27,426	33,901	-1,057	35,535
Sweden	27,716	26,691	38,845	30,335	26,205	20,364	29,912	28,977	30,279	9,162	13,045	4,703	27,369	17,834	16,266	23,641	27,137	62,942
Türkiye	1,064	924	2,106	2,549	1,553	1,469	2,330	4,106	3,536	6,681	4,813	2,953	2,626	3,665	2,972	3,237	5,042	4,711
United Kingdom	88,544	81,113	335,934	197,411	28,993	48,075	95,578	20,767	40,483	-151,368	-66,827	-37,587	142,443	82,943	11,715	-78,170	84,926	129,618
United States	26,901	232,662	404,989	320,941	309,252	296,334	415,271	338,363	321,937	347,658	274,486	305,441	353,663	-129,021	55,630	261,476	311,760	402,214

Although the flow of inward FDI around the world kept increasing from 2005 to 2008, in 2009 and 2020, a sharp decrease in inward FDI occurred due to the 2009 global financial crises and the COVID-19 pandemic. However, after the crisis and the pandemic, inward FDI began to increase at higher rates in developed countries compared to developing countries due to the lower risk that investments have in developed countries (Table 1). For the period between 2005 and 2022, the three countries that led with the total number of inward FDI were the USA, China, and the United Kingdom (Table 1). As for the European Union, outward FDI has had positive effects on the competitiveness of EU firms by increasing productivity. Policymakers had concerns about the rising level of outward FDI, mainly due to the fact that the investments of the EU countries were being heavily in foreign investments, which could depress economic activities in the host countries and decrease the employment of EU citizens. Additionally, it is claimed that companies in the EU achieve higher returns from their foreign investments compared to the returns that investors achieve from their investments in the EU (Sunesen et al., 2010). That is why a good portion of the EU countries have higher rates of outward FDI compared to their inward FDI, such as Germany, Denmark, Sweden, and the Netherlands (Table 1 and 2). To conclude, it is believed that the reasons for the increase of inward FDI to developed countries compared to developing countries are due to high degree of openness, stable economy, high quality of human resources, cultural similarities, ample infrastructure facilities, and technological development. This shows that developing countries will remain the leaders of inward and outward FDI (Cambazoglu and Karaalp, 2013). Outward FDI is when the residents of the host country invest in foreign countries; this includes reinvested earnings and intracompany loans, repayment of loans, and net receipts from the repatriation of capital. As it can be seen in Table 2, developed countries lead in outward FDIs because developing countries are the ones that are usually the recipients of FDI and are looking to invest in their home countries rather than foreign countries (Kim, 2000). The countries with the highest outward FDI are the USA, China, and the United Kingdom; similarly, those countries also lead in inward FDI. In Tables 1 and 2, negative figures of FDI inflows indicate that the foreign investments that are coming into the host country are less than the foreign investments that are leaving the host country. Negative FDI net outflow figures mean that the foreign investments of the country bring in negative returns.

5.2. Inward and outward FDI in Turkey

The development of the Turkish economy should be divided into two time periods, which are pre-1980 and post-1980 (Karluk, 2001). During the beginning of the Turkish Republic, to decrease the dependency of the Turkish economy on foreign investments and to further improve the newly established country, customs tariff rates were raised. Between the periods of 1923 and 1950, the inward FDI in the Turkish economy was negligible because of the nationalisation of foreign companies that were given incentives. Although Turkey was not against FDI inflows, the country did not apply policies to incentivise or motivate FDI inflows until 1954 (Yavan, 2006). When the new law was introduced in 1954 (No. 6224) on "Encouragement of Foreign Capital", foreign investors became willing to participate in activities that produced goods and services with the condition that no monopoly or special privileges could be present (Ercakar and Karsgol, 2011).

In 1979, after the oil crisis, the Turkish economy went through challenging obstacles, and to solve such circumstances, radical decisions were put in place. In 1980, new economic policies were introduced, known as the "24th of January Decisions", The newly introduced policies were designed to address the obstacles that Turkey experienced during the 1970s. The fundamental goal of those policies was to guarantee that the Turkish economy operates in accordance with free market principles and to integrate the Turkish economy into the global economy. Based on this, the import regime was liberalised, exports were given aid, and to make Turkish exports more competitive, currency rates were permitted to decline in real terms, which led to the growth of exports into the country (CBRT, 2002). Turkey's economic policy changed from a country that depends on imports, to a country that aims to grow its export sector, which liberated the financial markets and gave more importance to foreign trade. Within the scope of these decisions, the "Directorate of Foreign Capital" was established under the Prime Minister and was regulated by the State Planning Organisation (DPT, 2000). Consequently, the January 24, 1980, decisions started a new era for the Turkish economy. Additionally, after the adoption of Law No. 6224, which reduced concerns about foreign capital and economic liberalisation policies in the 1980s, Turkey has become known for its liberal legislation (DPT, 2000). Due to those regulations, FDI inflows increased from 1980 to 1984. However, FDI inflows to Turkey were not sufficient to actualize regulations. In 1984–2003, FDI began to decrease in Turkey, and then after 2003, FDI began to increase again, which can be seen in Table 1.

The main cause of this increase was the introduction of the "Direct Foreign Investments Law," No. 4875.

Law 6224 was not able to keep up with the demands of foreign investors. Because of the need for a new FDI law to incentivise foreign investors to invest in Turkey, "Direct Foreign Investment Law" No. 4875 was implemented in 2003 (Yılmaz, 2006). "The primary reason for this law is to protect the rights of foreign investors, regulate the principles to encourage FDIs, establish a notification-based system for FDIs rather than doing screening and approval, define investment and investor in line with international standards, and increase inward FDIs by implementing new policies" (ISPAT, 2012). After Law No. 4875, FDI inflow into Turkey kept increasing in annual basis until 2008, when the global financial crisis occurred and FDI inflows into Turkey decreased significantly (Table 1). After this period, extensive liquidity operations by the Turkish Central Bank and large-scale government interventions led to the economy recovering faster than anticipated. Moreover, the global economy began to recover from the crisis, and this improved global risk perceptions (TCMB, 2010). As a result of the positive developments in the Turkish economy, FDI increased by 55% from 2009 to 2010 (Table 1). Moreover, in 2010, Standard & Poor's (S&P) increased Turkey's credit rating to BB+ for local currency and BB for foreign currency (TCMB, 2010). Turkey's contribution to international FDI outflows seems to be insignificant. The Turkish business sector is less competitive than those in industrialised nations for this reason. It should also be highlighted that developed countries have the highest percentage of outward FDI (Table 2).

6. Conclusions

This paper explores the literature on foreign direct investment globally, with a specific focus on Turkey. Emerging economies and developed economies have been focusing on methods to increase the flow of FDI into the country due to its multiple benefits. FDIs are categorised into four types: mergers and acquisitions, horizontal FDI, vertical FDI, and greenfield FDI. As for the determinants of FDI, multiple scholars have examined this topic by using multiple variables such as GDP, market growth, market structure, market size, labour productivity, labour cost, wages, human resources, trade restrictions, FX rates, inflation, cultural factors, tariffs, growth rate, openness, political stability, transport and communication costs, investment tax, and incentives.

Numerous studies show the benefits of FDI for host countries, which are a strong balance of payments, economic growth, employment and wage growth, productivity growth, technological advancement, and lower poverty. Conversely, FDI does have negative effects on the host country, which are cultural changes, technological dependency, intervention in national issues, reduction of tax revenues, balance of payment issues, and environmental pollution (Mucuk, 2011).

There are considerable number of studies about the determinants of FDI inflows in Turkey, but very few researchers have studied the effects of FDI on the Turkish economy. Examining the effects of FDI in Turkey would be an interesting research topic. Globally, further research can be made about the relationship between FDI and financial ratios.

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