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# Foreign Direct Investment in Turkey: Enhancing its Impact on Economic Development

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## Abstract

This paper examines the relationship between foreign direct investment (FDI) and economic development in the Republic of Turkey, beginning with a survey of existing scholarly literature on past FDI in Turkey and its effects. Special attention is paid to the question of whether FDI encourages economic growth with emphasis connections to local firms. The issue of rising protectionism toward globalization is addressed, as is the importance of FDI policy. The impact of FDI on development in Turkey is related to the national origins of multinational enterprises (MNEs) as their productive activities and level of internalization. This paper underscores the importance investment agencies such as Invest in Turkey, sets forth some general suggestions for promoting FDI to benefit the host country through knowledge transfer and capital transfers, and urges policymakers consider individual projects on a case-by-case basis, especially given the scarcity of capital in the wake of the COVID-19 pandemic.

**JEL Codes:** F21, F63, F68

**Keywords:** Foreign direct investment, Turkey, investment policy, investment impacts.

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# Türkiye'de Uluslararası Doğrudan Yatırım: Ekonomik Kalkınma Üzerindeki Etkisinin Artırılması

## Öz

Bu makale, Türkiye'deki geçmiş Uluslararası Doğrudan Yatırım (UDY) ve etkileri hakkında mevcut akademik literatürün bir taramasıyla başlayarak, Türkiye Cumhuriyeti'ndeki UDY ile ekonomik kalkınma arasındaki ilişkiyi incelemektedir. UDY'nin ekonomik büyümeyi teşvik edip etmediği sorusuna, yerel firmalarla bağlantılara vurgu yapılarak özel bir önem verilmektedir. UDY politikasının önemi gibi, küreselleşmeye yönelik artan korumacılık sorunu da ele alınmaktadır. UDY'nin Türkiye'deki kalkınma üzerindeki etkisi, çok uluslu işletmelerin (ÇUİ) üretken faaliyetleri ve içselleştirme düzeyleri gibi ulusal kökenleri ile de ilgilidir. Bu makale, Invest in Turkey gibi yatırım ajanslarının öneminin altını çizmekte, bilgi transferi ve sermaye transferleri yoluyla ev sahibi ülkeye fayda sağlayacak UDY'yi teşvik etmek için bazı genel öneriler ortaya koymakta ve özellikle COVID-19 salgını sonrasında sermaye kıtlığı göz önüne alındığında politika yapıcılarını her projeyi tek tek vaka bazında değerlendirmeye teşvik etmektedir.

**JEL Kodları:** F21, F63, F68

**Anahtar Kelimeler:** Uluslararası doğrudan yatırım, Türkiye, yatırım politikası, yatırım etkileri.

# 1. Introduction

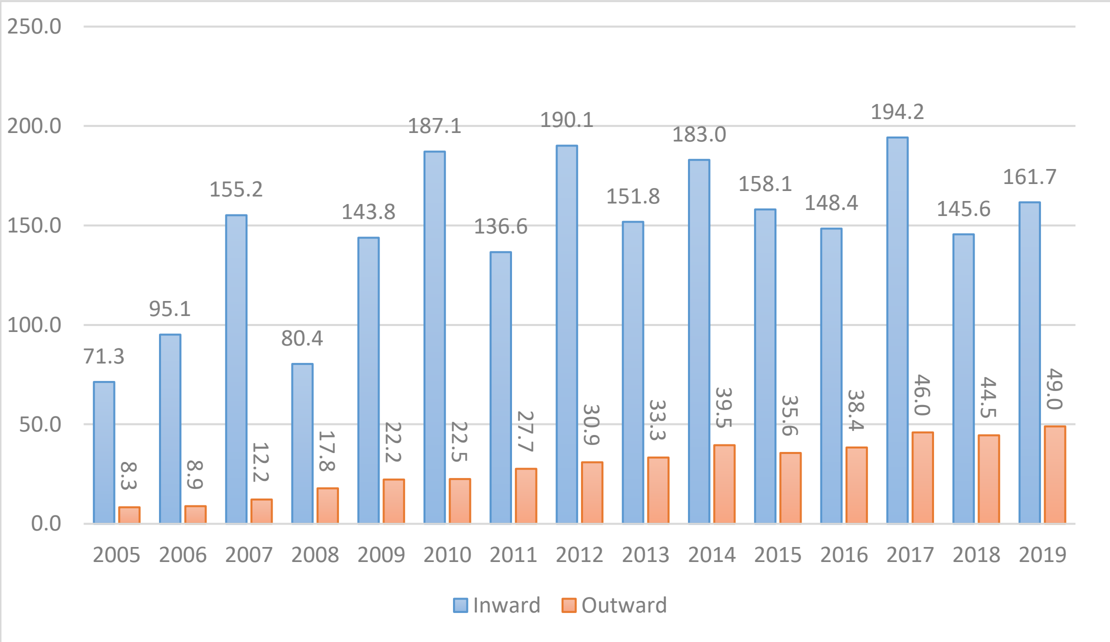
This paper examines the relationship between foreign direct investment (FDI) and economic growth in the Republic of Turkey, with special reference to government policy and FDI's impacts on local firms. The primary motivation is to better understand and document potential positive spinoffs from FDI. The paper begins with a brief overview of FDI in Turkey, followed by a review of the most relevant and important theoretical and empirical work by academic scholars. UNCTAD data on FDI and related variables are examined to reflect upon the results of Turkey's outreach to multinational enterprises (MNEs) over the past two decades. Finally, several suggestions are provided for policymakers in the interest of enhancing the positive impacts of FDI in Turkey. These include more carefully considering the likely societal and environmental effects of FDI by scrutinizing origins and activities of MNEs, as well as potential linkages to domestic firms. Judicious screening is particularly vital in light of the detrimental effects of the Global Financial Crisis, followed by the even more devastating COVID-19 pandemic.

# 2. Significance of Turkey as an FDI Destination

Among the 20 largest economies globally with a 2020 GDP of USD 720 billion, Turkey is placed in categories ranging from "developing" (UNCTAD, World Bank, and *The Economist*) to "developed" (CIA), with upper-middle income status in terms of its per capita income of USD 8636 in 2020 (World Bank, 2021). Over recent years, FDI flows to Turkey typically rank approximately 20$^{th}$ in the world (UNCTAD, 2020), reflecting the country's attractiveness as a large market of more than eighty million, as well as its geographic location straddling Europe and Asia, proximity to Africa, and customs access to the EU market.

An extensive scholarly literature on FDI in Turkey has been developed over the past two decades, especially during the recent period of FDI inflow acceleration. Key contributions to this body of research focus upon the historical context of FDI in Turkey (Grigoriadis and Kamaras, 2008; Cambazoglu and Karaalp, 2014), the relationship between FDI and growth (Temiz and Gőkmen, 2014; Gőkmenoğlu and Taspinar, 2016) and explanations of FDI location (Deichmann, Karidis, and Sayek, 2003; Yavan 2010). From 2003 until the 2016 coup attempt and more recently the COVID-19 pandemic, FDI inflows to Turkey generally increased (UNCTAD, 2020) in response to the government's enactment of Law 4875. This law dramatically liberalized the rules governing foreign ownership of assets within Turkey, effectively levelling the playing field between domestic firms and MNEs. Moreover, as Turkey's economy grew steadily over the ensuing period of 15 years, outward FDI also increased (Yavan, 2011b; Kılıçaslan, et al., 2019). Inward FDI stock has averaged 150-180 USD billion over most years, with outward FDI peaking at nearly 50 USD billion 2017 and 2019. Both of these trends are highlighted in Figure 1.

**Figure 1: Turkey's Cumulative Inward and Outward FDI 2005-2019 (USD billion)**




Source: OECD.

Of course, outward FDI is subject to criticism because it represents the loss of Turkish capital that could otherwise be invested domestically. At the same time, however, outward FDI is credited with enabling technology transfer into Turkey and channeling cost savings to Turkish firms to make them more competitive (Kılıçaslan et al., 2019). Paul and Benito (2018) provide a robust review of the research that has been conducted on the costs and benefits of outward FDI from the perspective of the origin country.

# 3. Literature

## 3.1 Foreign Direct Investment Theory

A broad scholarly literature exists on the theory of FDI, summarized elsewhere by Paul and Feliciano-Cestero (2021). For our present purposes, it is worth mentioning just a few key contributions. John Dunning's pioneering (1980, 1988) eclectic framework considers FDI in terms of three characteristics: origin, location, and extent of internalization. Dunning's three elements are extremely relevant to Turkey as an FDI destination and beneficiary of positive spinoffs and should be considered in conjunction with one another. Following Dunning's framework, the discussion rests upon the importance of the home country of MNEs, the extent and nature of the production process, and characteristics of the destination (first Turkey, but also the location *within* Turkey) and their relationship to spillovers. According to Dunning (1980, 1988), MNEs are enabled by characteristics of their home country as well as firm-specific characteristics and are driven to certain locations in search of resources, markets, efficiency, or strategic assets.

Scholarship on production structure and market imperfections by Dunning (1980, 1988, 1998), Alfaro et al. (2008), Yavan (2010), and Dicken (2015) can be summarized succinctly. These mainstream explanations of FDI flows include market considerations (size and growth), agglomeration (ancillary partnerships and follow-the-leader), labour factors (e.g., wages and skills), the location of raw materials, availability of capital, transportation infrastructure, economic and political stability, transparency vis-à-vis corruption, and host government policy. Many of these explanations relate to features of the MNE's origin country as well as the destination country, and are therefore considered relational (e.g., cultural similarities and geographic proximity). It should also be stressed that many explanations are valid at a range of geographic scales including the national (Dicken, 2015) and subnational (Deichmann et al., 2003; Yavan, 2010). Conversely, inhibitors or barriers to FDI include unattractiveness with regard to the variables above such as political uncertainty as well as exchange and interest rate instability that can dissuade decision-makers from investing capital in a particular foreign environment.

## 3.2 Empirical Research on FDI and Location Choice in Turkey

Grigoriadis and Kamaras (2008) provide a thorough overview of historical constraints on FDI in Turkey, beginning with the Ottoman 1838 Commercial Treaty with Great Britain that resulted in "one of the most liberal economic environments" of the time (54). Economic nationalism arose leading up to the First World War, and the new Turkish Republic's policies toward outside entities guarded against foreign exploitation. The Great Depression of 1928-32 only reinforced Turkish suspicion of liberalization toward foreign corporations.

Following World War II, Turkey's embrace of import-substitution-policies provided limited economic growth in isolation. This period was followed by the banking crisis of 2001 and cabinet instability in the Turkish government. Grigoriadis and Kamaras (2008) argue that the rise of the Justice and Development Party (AKP), in power since 2003, associated with its priorities of macroeconomic stability, EU accession, and increased FDI in Turkey" ushered in a new era during which Turkey became elevated to the status of a model "Muslim country which is also a successful democracy and market economy" (Grigoriadis and Kamaras (2008, p. 61). However, following the failed coup attempt in 2016, it is important to acknowledge that FDI to Turkey dropped by 31 percent, casting doubt on the country's political stability (UNCTAD, 2017; *Guardian* 2018). Moreover, prospects for further EU integration have deteriorated over recent years, although as of

2021 President Erdoğan continues to reiterate his commitment to full accession (Reuters 2021).

Location analysis of FDI in Turkey has also been conducted at the subnational level. Deichmann, et al. (2003) examine investment across Turkish regions using data through 2000, just prior to Turkey's emergence as a "major" recipient of FDI (more than one billion USD annually). Their main findings confirm the importance of agglomeration, financial markets, human capital, and geographic location, while ruling out any significant role by province-level public investment. Yavan (2010) updates these findings on subnational location choice, corroborating the importance of agglomeration economies built by both Turkish and foreign firms. The author also highlights the urban location and information costs as additional determinants, underscoring the prevalence of Istanbul as an FDI magnet. Moreover, he finds evidence that adjacency to other countries as well as market demand contribute to FDI in Turkey, overshadowing the traditional labour factors and infrastructure quality.

## 3.3 Government Policy and FDI

Host governments can play an enormous role in attracting and developing FDI, and several levers of control are enumerated in Peter Dicken's *Global Shift* (2015). Governments often publicize and promote investment opportunities through their investment agencies, which offer incentives and often have the power to bid competitively against rival destinations. Agencies also screen FDI projects and in some cases exclude certain sensitive economic sectors, as well as periodically restricting the degree of ownership in compliance with business laws. Controls may also include local management and content requirements, export thresholds, technology transfer demands, and locational restrictions. Finally, host governments are typically involved in financial operations, including taxation, as well as enforcing any restrictions on remittances. Of course, the operations of such agencies are costly, and accordingly they have drawn criticism from researchers including Mallya, Kukulka, and Jensen (2004) and Drhokoupil (2008). Critics such as these draw attention to ineffective resource allocation, fierce competition by candidates that diminishes any possible positive effects, and in some cases even the compromise of local laws.

FDI flows are also impacted by broader government policy and often by public sentiment. Thomsen and Mistura (2017) use empirical data to demonstrate that FDI reforms toward openness directly and dramatically increase inflows of FDI, drawing evidence from Brazil in 1997, Korea in 1998, Vietnam since 1985, and the Philippines in 1997, although the latter remains one of the most restrictive. The authors highlight the Republic of Turkey as a country that has benefitted from some of the most successful liberalization schemes in the world since 1997, the effects of which are demonstrated graphically in Figure 2. Moreover, models by Alfaro, Kalemli-Ozcan, and Volosovych

(2008) suggest that if Turkey were to improve its institutions to the level of the United Kingdom, its inflows would increase by 60%.

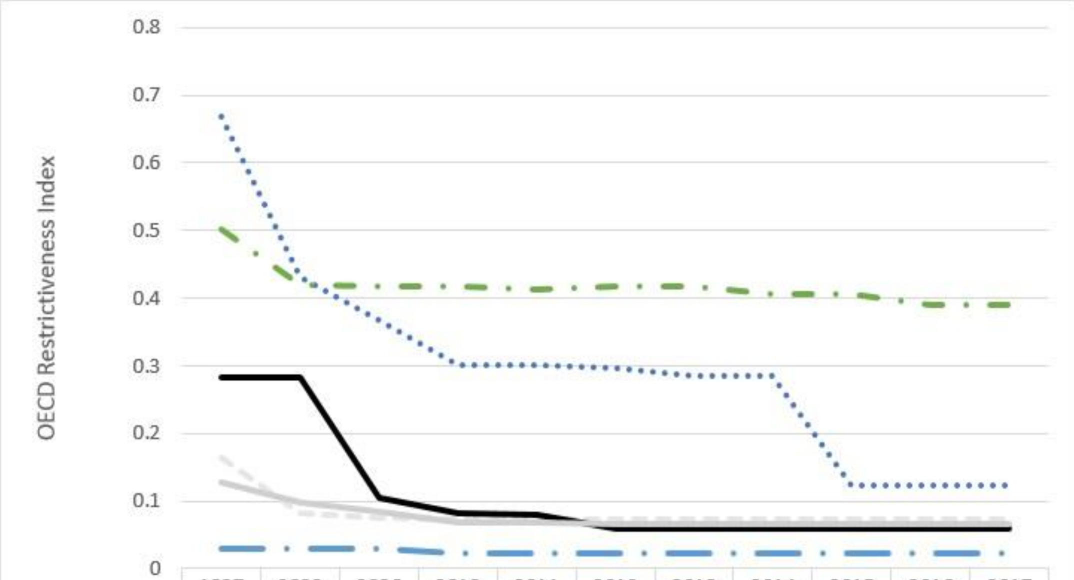
Additional research examines linkages between flows of FDI and international trade (Meredith and Maki 1992, Aizenman and Noy 2006). Scholars debate whether the two modes of international production are competitive or complementary. Meredith and Maki (1992) find evidence from the Canadian context that trade linkages are reinforced by the presence of US-based MNEs. Applying regression and two-way feedback analysis to 21 developed and 60 developing countries from 1982-1998, Aizenman and Noy (2006) confirm that FDI and trade complement one another. They contend that the strongest evidence can be found in developing countries, where most FDI tends to be vertical, and in countries with more liberal trade regimes and financial entry barriers.

Despite demands for more liberal policies toward both FDI and trade (Aizenman and Noy 2006), protectionism toward both has been on the rise. Gőrg and Labonte (2011) treat both trade and FDI as forms of "international commerce", examining FDI flows between OECD states and their partners from 2006-2009. They blame the financial crisis for not only reducing FDI flows directly, but also indirectly as governments tried to reduce their susceptibility to trade and FDI partnerships with foreign entities. Protectionist rhetoric is often reinforced by popular sentiment among voters in democracies. A 2017 OECD report highlights this phenomenon and suggests that protectionism has led to a sustained global downturn in FDI. Protectionism may further intensify in response to pandemic-related withdrawal of crucial FDI projects since COVID-19 began disrupting the global economy in 2020 (UNCTAD, 2021).

Protectionist sentiment has not yet necessarily been reflected in statutory rules governing FDI, which have tended to become more liberal over time. Figure 2 uses the restrictiveness index set forth by the Organization for Economic Cooperation and Development to compare Turkey's level of protectionism to several FDI competitors over the past two decades, using the OECD average (OAVG) as a reference point. The index is based upon foreign equity restrictions; discriminatory screening or approval mechanisms; restrictions on key foreign personnel and operational restrictions[1]. It is noteworthy that Turkey's restrictiveness scores are very much in line with those of other OECD states, and are already much lower than those of the more recently-liberalized countries of Vietnam and Philippines.

[1] For more information on the methodology behind this index, see https://www.oecd-ilibrary.org/finance-andinvestment/oecd-s-fdi-restrictiveness-index_5km91p02zj7g-en

**Figure 2: OECD Restrictiveness Index: Turkey, OECD Average, and Selected Countries.**




| | 1997 | 2003 | 2006 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| DEU | 0.03 | 0.03 | 0.03 | 0.023 | 0.023 | 0.023 | 0.023 | 0.023 | 0.023 | 0.023 | 0.023 |
| POL | 0.165 | 0.083 | 0.076 | 0.072 | 0.072 | 0.072 | 0.072 | 0.072 | 0.072 | 0.072 | 0.072 |
| TUR | 0.283 | 0.283 | 0.105 | 0.082 | 0.08 | 0.059 | 0.059 | 0.059 | 0.059 | 0.059 | 0.059 |
| OAVG | 0.127 | 0.098 | 0.084 | 0.068 | 0.068 | 0.067 | 0.066 | 0.066 | 0.066 | 0.066 | 0.066 |
| VMN | 0.668 | 0.432 | 0.368 | 0.302 | 0.302 | 0.296 | 0.285 | 0.285 | 0.124 | 0.124 | 0.124 |
| PHL | 0.501 | 0.419 | 0.417 | 0.417 | 0.412 | 0.417 | 0.417 | 0.406 | 0.406 | 0.39 | 0.39 |

DEU: Germany, POL: Poland, TUR: Turkey, OAVG: (OECD average of 68 countries, VMN: Vietnam, PHL: Philippines
Source: OECD.

## 4. The Role of FDI in Turkey on Development and Local Firms

Foreign direct investment is generally - but not always - considered to be an engine for economic development (Cambazoglu and Karaalp, 2014; Baldi and Miethe, 2015; Alfaro, 2017), and this is the very reason why government policy often goes to great lengths to promote investment opportunities abroad (Deichmann, 2010; WAIPA, 2021). FDI has the potential to benefit countries through its transfers of capital, technology, and know-how, and can increase the productivity of domestic firms (Smarzynska Javorcik, 2004; Pavlinek, 2017). Whether the conventionally-anticipated goals of capital accumulation as well as transfers of technology, knowhow, and managerial experience are actually achieved depends upon many factors, including characteristics of the origin country, the location itself, and mode of entry. These variables roughly reflect the framework of Dunning's (1980, 1988) eclectic "O-L-I" paradigm of FDI. This framework is helpful not only for explaining *where* FDI takes place, but also its *impact* on economic development. The scholarly literature on FDI effects emphasizes the importance of origin country (Dunning's "O"; e.g., Ford et al., 2008) and location choice (Dunning's "L"; e.g., Yavan, 2011a; Pavlinek, 2017), as well as mode of entry and other firm-specific characteristics (Dunning's "I"; e.g., DeMello, 1999; Pavlinek, 2004; Smarzynska Javorcik, 2004; Pavlinek, 2017).

Scholars have assembled a large literature on FDI and economic growth. DeMello's (1999) original empirical work on FDI-led growth complements the theoretical literature by examining an extensive database of countries over two decades from 1970-1990. He argues that growth effects of FDI are "less controversial in theory than in practice" (DeMello, 19991, p.48), citing country-specific factors such as institutions, trade regimes, political risk, and policy that elude observation in time series analysis. He observes that growth effects of FDI seem to depend inversely upon technological gaps between partners. He further argues that recipient countries may have difficulty benefitting from new technologies because they are too far behind the host countries to make use of these improvements. In other cases where technology levels are similar between origin and recipient countries, potential gains are also negligible.

It is a straightforward exercise to highlight both positive and negative examples of FDI's impacts on the host society, and therefore the evidence can seem conflicting. Causality often depends upon the context[2]. Almfraji and Almsafir (2014) and Baldi and Miethe (2015) provide reviews of the major empirical contributions relating FDI to growth, ranging from a strong and positive relationship to a negative relationship. Still other studies show no evidence (Khaliq and Noy, 2007) or only weak evidence (DeMello, 1999) that the two are related. The findings that FDI promotes economic growth in some but not all cases are particularly convincing because they are based upon a very large dataset of countries during the time series 1970-1990. Moreover, Almfraji and Almsafir (2014) and Pavlinek (2017) find that when FDI promotes growth, it is often specific to a certain context and industrial sector rather than leading to spillovers as a universal rule.

In the case of Turkey, Temiz and Gőkmen (2014) find no evidence of a significant short run or long run relationship between FDI inflow and GDP growth from 1992 to 2007. Notably, this time period straddles the 2003 introduction of Turkey's FDI Law Number 4875 and ends prior to the Global Financial Crisis of 2008, and of course prior to the COVID-19 pandemic. Based upon an extensive review of the literature highlighting causal linkages in other contexts, the authors hypothesize that FDI serves as a catalyst for economic growth in Turkey. However, they conclude that foreign

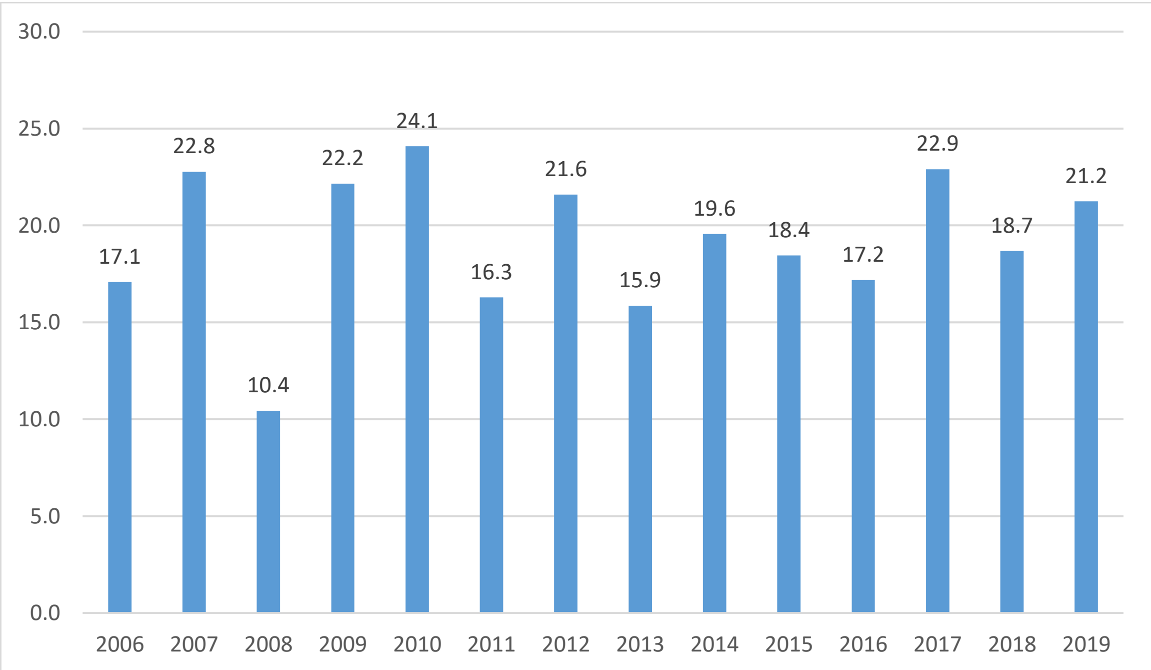
[2] See, for example, Pavlinek's (2017) chapter "Linkages and Spillovers" (149-183).

investment has not led to the benefits anticipated by Turkish advocates, attributing this result to the mode of entry by MNEs, which largely represents mergers and acquisitions.

Using 1974-2010 data for Turkey, Gőkmenoğlu and Taspinar (2016) examine the relationship between carbon dioxide emissions, energy consumption, economic growth, and FDI. They find a bidirectional relationship between all variables except FDI, using the Toda-Yamamoto test to confirm these causalities. Moreover, they discover that economic growth and energy consumption lead to FDI, confirming the pollution haven hypotheses in the case of Turkey. In other words, the authors cite evidence that countries like Turkey, with lower environmental standards, attract FDI from polluting firms, much to the detriment of the host society.

Echoing Mallya et al. (2004) and Drahokoupil (2008), Carbonell and Werner (2018) provide a scathing critique of FDI's impact on development. In the context of Spain, the world's eighth largest recipient of FDI, the authors find that economic growth was credit-driven, and the presence of FDI likely exacerbated the economic crisis. They argue that public resources are better off being reallocated away from the promotion of FDI. Carbonell and Werner conclude by lauding the merits of autarky, citing the example of Japan's growth in the 20th Century.

**Figure 3: Cumulative FDI in Turkey as a Percentage of GDP, 2005-2019.**




Data Source: OECD (2018). Retrieved from https://data.oecd.org/fdi/fdi-flows.htm#indicator-chart

In light of these critical and often conflicting views of FDI's effects, is imperative to develop a better understanding of the relationship between FDI and growth in the context of Turkey. As shown in Figure 3, FDI represents a considerable portion of Turkey's GDP, averaging 18.7% during the period 2005-2019 (OECD, 2021). The enormous role of FDI in the Turkish economy justifies the attention paid by policymakers to these incoming financial flows.

Scholars (DeMello, 1999; Alfaro and Charlton, 2007; Baldi and Miethe, 2015) posit that while FDI has the *potential* to promote economic growth, it does not necessarily do so. According to Ford, Rork, and Elmslie (2008) in some cases FDI growth effects depend upon the MNE's origin country. These authors examine the growth effects of FDI in the USA according to the leading origin countries from 1978 to 1997, including Germany, Switzerland, the Netherlands, Japan, the UK, Canada, and France. They then compare growth effects between foreign and domestic firms at the state level. They find that only two states - Massachusetts and Maryland - benefit more from foreign firms than from domestic ones. They also find that Japanese FDI generates the most positive overall growth effects among the countries examined. For further research, the authors suggest disaggregating the dependent variable according to origin country and industrial sector.

The aforementioned findings are useful for Invest in Turkey as a government agency charged with targeting MNEs from specific origin countries. Invest in Turkey makes strategic decisions to maintain investment offices in certain foreign countries. As of 2021, these include Germany, Italy, Japan, Qatar, USA, Singapore, South Korea, Spain, UAE, and the United Kingdom. Promoting the right form of FDI from favorable and dependable origins is especially important in the context of Turkey, given FDI's contribution to total gross domestic product (GDP), which has averaged more than fifteen percent since 2005 (see Figure 3).

In addition to examining the potential impact of FDI upon economic growth overall, it is worth considering its specific potential relative to individual firms. Alfaro (2016) argues that FDI can potentially lead to backward and forward linkages with local firms, and access to international production networks and markets. DeMello (1999) concur that when synergy between foreign and domestic firms is realized, knowledge and technology transfer to local firms can take place. The authors base their findings upon panel data for the time series from 1970 to 1990.

Using firm-level across a wide range of manufacturing in Lithuania, Smarzynska Javorcik (2004) unveils evidence that joint venture FDI leads to positive productivity spillovers to local firms. Specifically, her findings show that a one standard-deviation increase in FDI results in a fifteen percent rise in output for domestic firms supplying that FDI. Notably, her findings on positive spillovers in joint-ventures do not extend to fully-owned foreign firms.

Javorcik and Spatareanu (2011) find that the nature of investment is influenced by distance between the origin and host countries, as well as the (non-) presence of preferential trade agreements. Their findings are based upon panel data for USA and EU firms operating in Romania. The type of investment, in turn, impacts whether positive downstream spillovers occur. The authors conclude that FDI from the USA results in greater knowledge and technological benefits because these MNEs' distance from home requires them to source more local inputs from Romania. Moreover, this tendency is reinforced by the EU's association agreement with Romania, which levies lower tariffs for EU-based firms than those from North America. Even prior to Romania's EU accession in 2007, the availability of nearby inputs from home provided a disincentive for EU firms to develop local inputs in Romania.

Pavlinek examines in detail the German firm Volkswagen's erstwhile joint venture with Czech automaker Škoda (2004), as well as broader FDI in Central Europe's automobile industry (Pavlinek, 2017). He documents the crucial role played by FDI in saving and upgrading this privatized company, which had been doomed to failure following the fall of central planning. Based upon his 2004 study, Pavlinek enumerates the successes of this acquisition, but cautions against overly optimistic expectations of FDI's development effects. He advocates for a sober assessment of FDI's potential benefits, reiterating that MNCs are profit-seeking entities that possess little if any loyalty to the host country. He acknowledges that Volkswagen's large investment in the Czech Republic has brought benefits in terms of productivity spillovers if not technology turnovers.

In subsequent work, Pavlinek offers a "classification of spillovers" as effects of FDI (Pavlinek, 2017, p.153). He broadens his scope of inquiry to the entire region of Central and Eastern Europe, observing additional evidence of MNC transience during the 2008-2009 economic crisis. Based upon survey data, the author documents effects in the form of layoffs and bankruptcies. He warns against vulnerability to a single foreign firm, especially in the event of currency fluctuations and local wage increases. Nevertheless, he clarifies that with the benefit of careful management, FDI can be an important component of development policy.

The bottom line is that FDI's impact on economic development depends upon the context, and this explains the disagreement in the literature. FDI, when properly negotiated, sited, and managed, can provide positive spinoffs to the host society and local firms (Alfaro and Charlton 2007). National investment agencies such as Invest in Turkey have the prerogative and responsibility to pursue and support projects that will benefit their local populations and help develop the domestic economy. They can also forego or prohibit projects that will work to their detriment. Czechinvest, the Czech government agency for investment promotion and support provides an excellent example of success at promoting FDI, while taking into consideration the potential negative impacts of foreign ownership.

As mentioned earlier, a rise in nationalism in many countries, combined with observations of foreign companies either acting outside the interests of host societies, or abandoning projects altogether has led to skepticism about inward FDI. This is clearly exemplified by the Great Recession of 2008, when billions of dollars in FDI were withdrawn from overseas, leaving millions of people unemployed. Certainly, the severance of local ties by MNEs left an unfavorable wake of sentiment in the host societies, and justifiably led to anti-foreign sentiments.

# 5. Conclusions

An understanding of FDI’s impact is particularly relevant in the Republic of Turkey, which depends heavily upon foreign capital as a percentage of national income. The process of attracting FDI remains a high priority for governments around the world (Smarzynska Javorcik, 2004; Deichmann, 2010; WAIPA, 2021; UNCTAD, 2021), clearly justifying the existence of government agencies such as Invest in Turkey charges with promoting, supporting, and analyzing FDI. Turkey successfully liberalized its FDI policies in 2003 and continues to provide many lucrative incentives to entice MNEs to invest in Turkey. The ongoing challenge is to screen FDI for projects that will maximize positive spillovers for the local firms and the broader Turkish society.

In its *Checklist for Foreign Direct Investment Policies,* the OECD (2003) outlines several guiding principles for host governments. Most of these extend far beyond non-discrimination between foreign and domestic firms. They include not only tax incentives, financial subsidies, and regulatory exemptions, but also guaranteeing a host environment that is predictable and transparent. With regard to the latter, the reputation of the Republic of Turkey continues to suffer from what *The Guardian* (2018) calls a “suffocating climate of fear” following the 2016 failed coup attempt, as well as currency instability and high interest rates (*The Washington Post* 2018). These factors not only present challenges for currently-operating domestic and foreign enterprises alike, but following findings by Alfaro, Kalemli-Ozcan, and Volosovych (2008) they are detrimental to Turkey’s reputation as a safe and predictable destination for FDI (UNCTAD, 2017).

This discussion, based largely upon theoretical and empirical scholarship on FDI with emphasis on Turkey, results in the following key points:

- **Continue to promote FDI**

Effective government promotion and aftercare will increase the inflow and retention of FDI (Deichmann, 2010), which can result in positive spillovers. Be prudent with policy resources; certain projects may not be worth the expense (Mallya et al., 2004; Drahokoupil, 2008).

- **Exercise selectivity with regard to FDI projects**

Although FDI is potentially beneficial to the host society, not all FDI is necessarily beneficial (DeMello, 1999). The role of Invest in Turkey is not only important for promoting and supporting FDI, but also for safeguarding against abuses by MNEs seeking to reduce production costs at the expense of Turkey's society and environment. Following Gőkmenoğlu and Taspinar (2016), policymakers should look beyond the economic gains of FDI and consider potentially detrimental environmental impacts. To protect these, government policy should prudently revisit contracted incentives from time to time.

- **Balance the national direct investment portfolio**

Pavlinek (2017, p.47-73) shows that host countries are more susceptible than origin countries to the effects of economic crisis, including the policies of MNEs based in wealthier countries, especially when relying upon FDI in a single industrial sector.

o Government policy should seek to attract FDI from MNEs from a <u>broad range of origins</u>, protecting Turkey from unforeseen economic downturns and regional political issues. Bear in mind that firms from different origins tend to behave differently (Ford et al., 2008)

o As cautioned by Smarzynska Javorcik (2004), government policy should favor FDI that takes the form of joint ventures in order to encourage beneficial linkages, and also to mitigate risk by maintaining a prudent degree of local control.

o Pursue high value-added FDI. Government policy should seek FDI in industries that will enable and encourage transfers of know-how and technology, which is often realized through higher value-added activities rather than extractive ones.

Finally, it is worth reiterating the uniqueness of the Turkish context with regard to the country's strategic location and as well as the role of global events. Turkey's position at the crossroads of Europe, Asia, and Africa and its strong cultural and diplomatic relations afford it enormous geographic advantages as an FDI destination. Nevertheless, especially during times of uncertainty such as the wake of the Global Financial Crisis and COVID-19 pandemic, FDI inflows have diminished and countless projects have been dropped, further disrupting host country economies. Inter-governmental agencies (UNCTAD, 2020; UNCTAD, 2021) and academic scholars (Enderwick and Buckley, 2020; Zhan, 2020; Sharma, 2021) have only recently begun to explore the evolving relationship between COVID-19 and FDI. Indeed, the existing theoretical and empirical scholarly literature on FDI provides important insights. However, in the present uncharted waters, global conditions require host governments to scrutinize each individual inward project with regard to its expected merits and potential costs.

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