



2026, 15 (1), 138-160 | Research Article

Capital from the Diaspora, Economy of the Homeland: The Economic Role of the Turkish Diaspora in Turkish Economic History

Naib Alakbarov ¹

Abstract

Developing countries face a persistent financing gap as one of the major obstacles to achieving sustainable development goals. Insufficient domestic savings hinder these countries' ability to secure the financing required for their growth and development objectives, which consequently renders them dependent on external financial resources. External financing plays a crucial role in enabling these countries to undertake essential investments, raise income levels, and improve overall social welfare. In this context, the economic contributions of diaspora communities to their countries of origin have gained increasing recognition as a viable source of external financing. In recent years, diaspora investments have attracted attention in the development literature not only for their financial value but also for their broader developmental impacts. For many developing countries, diaspora contributions go beyond remittances and include direct investments, entrepreneurial initiatives, and the transfer of knowledge, skills, and cultural values. Migrants are thus viewed not only as financial contributors but also as key development actors who bring valuable human and social capital to their home countries. This study explores the role of diaspora investments as an alternative mechanism for development financing, drawing on key insights from the existing literature. It also examines the case of Türkiye, where, particularly since the 1960s, labor migration to European countries—especially Germany—has played a strategic role in national development through foreign exchange inflows and the transfer of skills and experience. Furthermore, the Granger causality analysis for the period 1964–1980 indicated a bidirectional causal relationship between remittances and the trade deficit, whereas the analysis for the period 1964–2020 did not reveal such a relationship.

Keywords: Financial Gap, Turkish Diaspora, Economic Development, Remittance, Foreign Trade Deficit, Tourism, Turkish Economic History

Alakbarov, N. (2026). Capital from the Diaspora, Economy of the Homeland: The Economic Role of the Turkish Diaspora in Turkish Economic History. *Journal of the Human and Social Science Researches*, 15(1), 138-160. <https://izlik.org/JA83BM57RB> , <https://doi.org/10.15869/itobiad.1788354>

Date of Submission	21.09.2025
Date of Acceptance	02.03.2026
Date of Publication	31.03.2026
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2026, 15 (1), 138-160 | Araştırma Makalesi

Diaspora Sermayesi, Anavatan Ekonomisi: Türk Diasporasının Türkiye Ekonomi Tarihindeki Ekonomik Rolü

Naib Alakbarov ¹

Öz

Gelişmekte olan ülkeler, sürdürülebilir kalkınma hedeflerine ulaşmada en büyük engellerden biri olarak süregelen finansman açığıyla karşı karşıyadır. Yetersiz iç tasarruflar, bu ülkelerin büyüme ve kalkınma hedefleri için gereken finansmanı sağlamasını zorlaştırmakta, bu da onları dış finansman kaynaklarına bağımlı hale getirmektedir. Dış finansman akışları, bu ülkelerin zorunlu altyapı yatırımlarını gerçekleştirmesine, gelir düzeylerini artırmasına ve nihayetinde genel sosyal refahı iyileştirmesine olanak tanıyan hayati bir katalizör işlevi görmektedir. Bu çerçevede, diaspora topluluklarının menşe ülkelerine sağladığı ekonomik katkılar, son dönemde üzerinde durulan ve sürdürülebilir bir dış finansman mekanizması olarak kabul gören önemli bir kaynak haline gelmiştir. Kalkınma literatüründe, diaspora yatırımları yalnızca sağladıkları finansal değer için değil, aynı zamanda çok boyutlu kalkınma etkileri nedeniyle de yoğun ilgi görmektedir. Zira birçok gelişmekte olan ülke için diaspora katkıları, basit havalelerin çok ötesine geçerek doğrudan yabancı yatırımları, kritik girişimcilik inisiyatiflerini ve en önemlisi bilgi, beşeri beceri ve sosyal/kültürel değerlerin transferini kapsamaktadır. Bu perspektiften bakıldığında, göçmenler artık sadece parasal katkı sunan unsurlar değil, aynı zamanda memleketlerine değerli beşeri ve sosyal sermaye aktaran kilit kalkınma aktörleri olarak görülmektedir. Bu akademik çalışma, mevcut literatürdeki temel bulguları kullanarak, diaspora yatırımlarının kalkınma finansmanı için alternatif bir kaynak olarak üstlendiği stratejik rolü derinlemesine incelemektedir. Çalışma, bunun dışında, özellikle 1960'lı yıllardan bu yana başta Almanya olmak üzere Avrupa ülkelerine yönelik gerçekleşen işgücü göçünün, döviz girdileri ve beceri/deneyim transferi yoluyla ulusal kalkınmaya önemli katkılar sağladığı Türkiye vakasını özel olarak ele almaktadır. Ayrıca, 1964-1980 dönemine ilişkin yapılan Granger Nedensellik analizi sonucunda, yurt dışından gönderilen paralar ile dış ticaret açığı arasında karşılıklı bir nedensellik ilişkisi tespit edilmişken; 1964-2020 dönemine ilişkin yapılan analizde bu tür bir ilişki gözlenmemiştir.

Anahtar Kelimeler: Finansman Açığı, Türk Diasporası, Ekonomik Kalkınma, Para Havalesi, Dış Ticaret Açığı, Turizm, Türk İktisat Tarihi

Alakbarov, N. (2026). Diaspora Sermayesi, Anavatan Ekonomisi: Türk Diasporasının Türkiye Ekonomi Tarihindeki Ekonomik Rolü. *İnsan ve Toplum Bilimleri Araştırmaları Dergisi*, 15(1), 138-160. <https://izlik.org/JA83BM57RB>
<https://doi.org/10.15869/itobiad.1788354>

Geliş Tarihi	21.09.2025
Kabul Tarihi	02.03.2026
Yayın Tarihi	31.03.2026
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1. Introduction

The first guest workers officially invited by Germany to contribute to the economic recovery known as the Wirtschaftswunder came from Italy. In 1955, the Federal Republic of Germany signed a recruitment agreement with Rome for the employment of Italian laborers. This was followed by similar agreements with Greece and Spain in 1960, and by the end of the 1960s, additional accords had been concluded with Morocco, Portugal, Tunisia, and Yugoslavia. However, the most significant impact on the trajectory of labor migration to Germany stemmed from a document comprising merely two pages, signed exactly on October 30, 1961: the recruitment agreement with Türkiye, which marked the beginning of Turkish immigration to Germany (Crolley, 2021, p.1).

Turkish migration to Western Europe encompasses a variety of patterns and motivations and can be broadly classified into several major forms. One key category is family reunification, which includes the migration of spouses, children, and individuals entering into transnational marriages. Another significant form is politically motivated migration, involving asylum seekers and political refugees. A further category consists of labour migration, particularly involving undocumented or irregular workers, as well as a limited number of legally admitted specialized professionals, such as Turkish-language teachers and other skilled individuals (Akgündüz, 1993, p.153).

Numerous labour recruitment and social security agreements have been signed between Türkiye and Western European countries. Labour recruitment agreements between Türkiye and several Western European countries were signed during the 1960s, laying the legal foundation for labour migration. The details are as follows (Abadan-Unat, 2011, p.11):

- An agreement with Germany was signed on 30 October 1961 in Bonn.
- With Austria, the agreement was concluded on 15 May 1964 in Vienna.
- An agreement with Belgium was signed on 16 July 1964 in Brussels.
- The agreement with the Netherlands was concluded on 19 August 1964 in the Hague.
- With France, the agreement was signed on 8 May 1965 in Ankara.
- The agreement with Sweden followed on 10 March 1967 in Stockholm.

To support migrant workers and ensure their social rights, Türkiye also signed social security agreements with various European countries. The agreements were concluded on the following dates and in the following locations (Abadan-Unat, 2011, p.11):

- United Kingdom: 9 September 1959, Ankara
- Germany: 30 April 1964, Bonn
- Netherlands: 5 April 1966, Ankara
- Belgium: 4 July 1966, Brussels
- Austria: 12 October 1966, Vienna
- Switzerland: 1 May 1969, Ankara
- Denmark: 13 November 1970, Ankara

- France: 20 January 1972, Paris
- Sweden: 30 June 1978, Stockholm

According to various sources, the number of Turkish citizens and individuals of Turkish descent residing in the European Union (EU) was estimated to be at least seven million. As of the end of 2016, the EU consisted of 28 member states with a total population of approximately 512 million. Within this framework, the aforementioned group accounted for less than 1.4 percent of the EU's total population. From a comparative perspective, Türkiye's population was approximately 80 million; this figure was quite close to that of Germany, the most populous EU member state, with 82 million inhabitants, and was significantly higher than that of France, the Union's second-largest country, which had a population of 67 million including its overseas territories. However, the Turkish-origin population within the EU did not display a homogeneous distribution. As expected, the highest concentration was observed in Germany, where the Turkish-origin population was estimated to range between 3 and 3.5 million. France followed with a population estimated between 900,000 and 1 million. Bulgaria ranked third with approximately 800,000 individuals. Turkish-origin populations were also present in the United Kingdom (500,000), the Netherlands (480,000), Austria (between 360,000 and possibly 500,000), and Greece (approximately 350,000). (Die Presse, 2017, p.1). Although these data were based on estimates pertaining to the end of 2016, subsequent assessments indicated that the overall magnitude of this population had largely remained stable in the following years; that is, both the total number and its distribution across countries appeared to have continued at roughly similar levels (T.C. Dışişleri Bakanlığı, n.d.).

The 1961 German-Turkish recruitment agreement was initiated by Türkiye, driven by the need to temporarily send part of its rapidly growing population abroad as "guest workers" to ease social and economic pressures and underemployment. With around 77 percent of the workforce in agriculture and only 10 percent in industry, returning migrants were expected to support economic modernization while generating much-needed foreign exchange. These expectations were realized: in 1972, Turkish workers sent 2.1 billion Deutsche Marks home, exceeding the country's 1.8 billion DM trade deficit, and in 1973, remittance inflows continued to surpass Türkiye's foreign trade deficits (Luft, 2014, p.1).

Diaspora is understood as a type of ethnic and/or religious minority. It refers to communities that maintain a connection to a homeland—often over generations—and whose sense of identity is shaped by a specific history of migration. What distinguishes diaspora groups from other types of ethnic and/or religious minorities are their transnational loyalties, relationships, and orientations (Nieswand, 2018, p.1).

Diaspora investment refers to transnational, business-oriented capital flows by diaspora members to their countries of origin, including direct investments through entrepreneurial activities, FDI influenced by diaspora executives, and portfolio investments (Newland & Plaza, 2013, p.1). Diaspora contributions to development typically involve trade, investment, and the transfer of skills and knowledge, motivated by financial returns, social recognition, or professional prestige (Nielsen & Riddle, 2007, pp.7–17). Diaspora networks can also facilitate FDI by reducing transaction costs and risks, as seen in Chinese diaspora communities supporting firms in identifying and accessing new business opportunities (DEİK, 2011, p.22).

This study contributes to the literature by analyzing diaspora investments as an alternative source of development finance through empirical data and existing research. It also examines the relationship between Türkiye's foreign trade deficit and remittance inflows across different periods. Focusing specifically on Türkiye—where labor migration to Europe, particularly to Germany since the 1960s, has generated significant foreign exchange inflows and facilitated the transfer of skills—the study highlights the role of the diaspora in Türkiye's economic history and its implications for development, foreign exchange earnings, and human capital transfer.

The next subsection of the study presents a literature review, followed by an examination of the significance of people of Turkish origin in Türkiye's economic history. The study concludes with the Discussion and Conclusion sections.

2. Literature Review

Migration is important not only for migrants themselves but also for reducing poverty among their families and in their countries of origin. Increased income after migration can be shared with relatives through remittances, which support various needs in the home country. Migrants can also facilitate trade between countries and contribute to development by returning with acquired skills and savings. Additionally, diaspora members may invest in their home countries, creating jobs and supporting economic growth (Ratha, 2013, p.1).

There are numerous country-level studies in the literature examining the impact of diaspora communities on the development of their countries of origin. For instance, Egresi and Bodocan (2021, p.27) analyze the motivations behind diaspora members' investment decisions in the case of Romania. Their study on Romanian entrepreneurs reveals that the factors driving diaspora investment in the homeland include both pull and push factors.

Considering the example of China, it can be said that the diaspora is one of the successful examples in attracting foreign direct investment. Over the centuries, China has experienced a massive emigration of people overseas. By the 1990s, more than half of the China's foreign direct investment came from these sources. (Huang and Khanna, 2003, p.80; Debass and Ardovino, 2009, p.12). Studies show that Chinese capital is an important element for the effective reintegration of China into the global economy. Its labour-intensive production, investment capital and expertise in export markets, and large population open to high levels of risk and uncertainty are key advantages of China's reform strategy. Thus, China was able to establish a production system that could compete in world markets (Smart & Hsu, 2004, p.546).

When the literature on the contribution of diaspora in the homeland is examined, it is seen that one of the important countries in this context is India. It is stated that the basis of the country's approach to diaspora investment is its desire to catch up with China and using its historical advantage to attract capital. Studies on India state that the democratic investment model based on the rule of law in this country provides a long-term advantage for India (Debass & Ardovino, 2009, p.12-13). On the other hand, according to research findings by Anwar and Mughal (2013, p.944), the Indian diaspora plays an important role in developing trade and investment links between India and other Asia

Pacific countries.

The African diaspora is widely recognized in the literature as a key example of how diaspora communities contribute to the development of their countries of origin. Compared to other sources of finance, the African diaspora plays a significant role in the socio-economic development of the continent, particularly through remittances, skill transfer, and socio-cultural influence. It is estimated that members of the African diaspora collectively save over \$30 billion annually outside their home countries (Benbrahim & Isaacs, 2020, p.1).

Although the study by Mehrez and Hamdy (2010, p.257) concludes that the skilled diaspora contributes to Egypt's development, it also highlights that this contribution is more concentrated in certain areas than others. When diaspora contributions are categorized as human capital and financial capital, the most significant impact in terms of human capital is observed in technology transfer and entrepreneurship. In terms of financial capital, the primary contributions are remittances and philanthropic activities. Conversely, the areas where diaspora engagement remains limited include political influence, trade, and investment.

It is widely argued that remittances from migrant diasporas—particularly in the case of African countries—play a significant role in enhancing commercial activity in developing economies. However, research indicates that in the case of the Zambian diaspora in the UK, while socio-cultural factors remain important, diaspora members tend to invest in safer, low-risk sectors rather than in more innovative and employment-generating ventures (Siwale, 2018, p.81).

Less wealthy but well-educated emigrants contribute to the structural economic development of their countries of origin by leveraging their commitment to these countries as a means of career advancement within the framework of corporate transnationalization. Other emigrants play a key role in facilitating direct investment by serving as intermediaries—utilizing their connections with the governments of their home countries. In contrast, wealthier emigrants are more likely to engage directly as investors. For instance, a German businessman of Egyptian origin employs approximately 1,000 Egyptians in a car accessories factory and also owns a hydraulics factory staffed by workers trained in Germany (Baraulina et al., 2007, p.25).

As regards the economies of developing country, direct investment is found to be more beneficial than remittances. Direct investments enable sustainable structural changes and economic growth in these countries. Many empirical evidences reveal that emigrants invest in economic sectors such as education and health, which are not preferred by foreign investors. Investing in these areas requires extensive institutional knowledge and extensive contacts with politicians, which foreign investors often lack. On the other hand, these sectors are services that are difficult to export and therefore less attractive to foreign investors (Baraulina and Borchers, 2008, p.9). Between 2010 and 2024, remittance inflows to Africa experienced a significant increase, rising from approximately US\$53 billion to US\$95 billion. Over the same period, their contribution to the continent's GDP grew from 3.6% to 5.1%. This upward trend has positioned remittances as one of the most substantial and reliable sources of external financing for the region (Ngundu & Baum, 2025, p.1).

The economic contribution of emigrants to their home country goes beyond purely financial aspects. Beside the capital invested, emigrants transfer knowledge and

technology based on their experience in other contexts. The know-how and production techniques they impart may not be new from a global perspective, but they may be innovative in the specific context of the country of origin or host country. Indian engineers, for instance, who emigrated to the United States in the 1960s and founded companies there, returned to India in the 1990s with the associated knowledge and technology transfer, thus enabling the development of the IT economy in Bangalore region (Deubler & Tangermann, 2018, p.1).

For decades, migration—especially skilled worker emigration or “brain drain”—was often viewed as harmful to developing countries, though the impact varies: small, low-income countries are more vulnerable, while larger, middle-income countries can benefit. Positive contributions of emigrants include remittances, education promotion, knowledge and technology transfer, and support for entrepreneurship and development projects in both diaspora and origin communities (Weitzenegger, 2018, p.1). Numerous studies also highlight international migration as a source of productive capital that fosters business creation, entrepreneurial activity, and economic growth, rather than causing economic stagnation or dependency (Adams, 1991, p.695; Massey & Parrado, 1998, p.1).

Many studies state that the emigration of especially skilled and educated workers possess one of the most obvious negative problems for the prosperity of developing countries. These studies also show that as skilled and highly educated emigrants return to take advantage of promising opportunities in their countries of origin, they bring capital and access to developed markets in developed countries, along with knowledge and technology. Further, skilled and highly educated emigrants

can serve as consultants to local businessmen. Apart from this, they can also take the role of effective oversight to the government and offer advice on necessary regulatory matters (Debass & Ardovino, 2009, p.5-7).

The diaspora significantly contributes to the development of their home countries through the transfer of institutional and policy knowledge, financial support, and human capital (Deubler & Rosendahl, 2012, p.5; Brinkerhoff & Riddle, 2012, p.4). Diaspora Direct Investment—either via diaspora executives encouraging companies abroad or through diaspora-owned firms collaborating with local businesses—differs from remittances by focusing on productive, firm-level investments, which are generally more economically efficient and impactful (Rodriguez-Montemayor, 2012, p.2).

Partner companies established in home countries with emigrant involvement serve as key channels for technology and knowledge transfer, introducing new ideas, products, and production methods that enhance domestic innovation. Diaspora-led enterprises similarly support development, as many emigrants establish businesses without permanently residing in their countries of origin. In sub-Saharan Africa, diaspora-founded small and medium-sized enterprises—especially in agriculture, trade, transportation, and construction—have fostered skills transfer, employment, and income generation, contributing to the continent’s entrepreneurial growth (Deubler & Rosendahl, 2012, p.6).

When examining the Turkish National Development Plans from the 1960s to the present, three distinct periods can be identified. In the 1960s, migration was encouraged to reduce population pressure and support economic growth through remittance inflows. During the period from 1970 to 2000, Türkiye’s diaspora policies toward Europe recognized the

role of the diaspora in promoting economic development and international relations. Since 2000, the policy has focused on attracting highly skilled migration to foster technological advancement toward a knowledge-based society, with this transition proceeding in parallel with institutional and legal reforms (Kilic & Biffl, 2022, p. 2047).

Türkiye's emigration policies have been shaped by two key dynamics: from the 1960s, the state promoted the outflow of low-skilled labor to Europe and later to the Middle East and North Africa region and Commonwealth of Independent States countries through bilateral agreements and contract-based schemes; since the 1980s, the emigration of skilled professionals and students has increased, prompting policies to encourage return migration and "brain circulation" to leverage expatriates' expertise and networks (Ensari et al., 2023, p.4). International migration has also been central to Türkiye-EU relations since the 1963 Ankara Agreement, which, along with the 1973 Additional Protocol, facilitated phased labor mobility. This enabled large-scale migration—primarily to Germany—helping European economies meet labor demands during the 1960s and early 1970s (İçduygu, 2006, pp.40–41).

The study by Dağdelen et al. (2010, p.173) on the remittance-sending strategies of international migrants focuses on Turkish migrants in the United States. The purpose of emphasizing this specific case is to highlight the limitations of analyzing remittance behaviors solely through economic or ethical lenses. Categorizing such strategies as strictly "rational" or "irrational" based on these frameworks can be misleading. For instance, the construction of a seven-storey apartment building on a remote plateau in Yağlıdere might be deemed irrational by neoclassical economists. However, when examined through the lens of conspicuous consumption, such behavior may offer insights into deeper socio-cultural dynamics and help explain why certain countries struggle with sustainable development.

Developing strategies to enhance diaspora engagement in national development requires first setting clear national goals and identifying the administrative, financial, and institutional

mechanisms needed to achieve them. Governments should assess both their own capacities and those within the diaspora, as well as potential contributions from other actors. For example, goals such as poverty reduction or improving the balance of payments may prioritize remittances, investments, and capital flows, while enhancing economic competitiveness may focus on leveraging diaspora knowledge, skills, and connections. Strengthening linkages between domestic institutions and those in host countries through diaspora networks can also significantly support development (Agunias & Newland, 2012, p.9).

3. Method and Results

In this study, the possible contributions of the diaspora to the economic development in their homelands are analyzed through descriptive analysis. The data employed in the analyses is obtained from the databases of World Bank and Republic of Türkiye Ministry of Culture and Tourism. On the other hand, this study employs the Granger (1969) causality test, a time-series-based causality analysis, to determine the existence and direction of causal relationships among the variables. Examining causality relationships between economic variables is of great importance for policymakers and researchers, as such analyses provide valuable insights into how shocks to one variable affect other

variables in terms of both direction and magnitude (Gayaeker & Yalçın, 2025, p. 202). Within this framework, the classical causality approach developed by Granger (1969) constitutes the econometric foundation of the study.

3.1. Economic Impacts of Diaspora in the Origin Countries

Diaspora investors, who have a more sophisticated understanding of governance and business within the country of origin, have a more different understanding of risk than other investors. This situation increases the probability of diaspora investors to invest in their country of origin compared to non-diaspora investors. It can be expressed the types of diaspora investments as follows (Asquith & Opoku-Owusu, 2020, p.63):

- 1) Diaspora remittance;
- 2) Diaspora Direct Investment;
- 3) Diaspora real estate as DDI;
- 4) Diaspora portfolio investments.

The World Bank highlights several factors that increase the investment propensity of remittance recipients: households often view remittances as temporary, are sometimes given conditional use (e.g., for education or agricultural equipment), direct funds to members—often women—who prioritize investment, place remittances in budgets reserved for investment, and use them to support entrepreneurship among middle-income households (Asquith & Opoku-Owusu, 2020, pp.63–64). The literature emphasizes the importance of focusing on diaspora investment, as it enhances understanding of FDI and economic transnationality, positions emigrants as active development actors, generates employment and spillovers, and attracts strong policy interest in developing countries (Naujoks, 2022, p.2).

It is noted that the biggest investment made by people in the diaspora in their country of origin is to buy and develop real estate. This investment was understood to be made for different purposes. Diaspora investors may seek property for a variety of reasons, from retirement homes, extended family use, residential or commercial rentals, long-term rentals, or outright sales. However, such assets by the diaspora can also be used as guarantees by other real estate companies and businesses to take advantage of local bank loans (Asquith, Opoku-Owusu, 2020, p.66).

Diasporas, however, have also significant financial assets that exceed their current income. Remittances are based on emigrants' income. However, mobilizing the wealth of the diaspora in terms of the development of the countries of origin reveals another important effect. It is important here to mobilize savings through capital markets and to channel them into productive investments (Terrazas, 2010, p.23). Introducing the tools used to mobilize diaspora wealth through the capital market is important in terms of revealing the relationship between diaspora and development. These tools are defined in the study by Terrazas (2010, p.12-16) as a) Deposit Accounts; b) Securitization of Remittance Flows; c) Transnational Loans; d) Diaspora Bonds; Diaspora Mutual Funds.

Migrants and their families are often overlooked by banks, due to factors such as high transfer costs, lack of collateral, insecure legal status, and cultural barriers. As a result, remittances are frequently kept outside the financial system, typically as cash savings or investments in land and real estate. However, regular remittance flows can enable Access to financial services like savings, credit, and insurance, enhancing economic

opportunities for low-income households. If remittances are deposited in banks, they can also support broader investment through increased lending. Under the right conditions, remittances can thus act as a catalyst for financial sector development by expanding financial inclusion and improving deposit security (Ambrosius et al., 2008). Deposit accounts, therefore, increase local bank assets, enable banks to lend, and increase investment. For financial institutions, one of the ways to take advantage of the remittance flows that emigrants send to their home country is through securitization of cash flows. For this purpose, some banks operating in developing countries securitize their remittance cash flows (Hughes, 2011, p.101; Terrazas, 2010, p.14).

Remittances can alleviate the credit crunch faced by economic actors, especially for countries whose financial sector is considered to be inefficient (Ramirez & Sharma, 2008; Githaiga & Kabiru, 2014). It can be stated that transnational loans given by banks or microfinance credit institutions are generally small-sized loans. This allows emigrants to apply for and take advantage of loans in their home country while living abroad. Examples of transnational loans are Mexico's Sociedad Hipotecaria Federal" and Microfinance International Corporation, which is US-based financial services corporation. The Mexico's Sociedad Hipotecaria Federal and the US-based Microfinance International Corporation can be examples of institutions that issue transnational loans (Terrazas, 2010, p.15).

Diaspora mutual funds, which are structured to meet the interests and needs of the diaspora, are a different form of diaspora portfolio investment where investors are only diaspora. Their marketing activities focus on the existing and the new diaspora investors. By making a literature review on the subject, it is revealed that these have not been implemented on a large scale yet, regardless of the examples such as Liberia Diaspora Social Investment Fund, Zambia Initial Investment Fund, and Rwanda Diaspora Investment Fund (Terrazas, 2010, p.19; Asquith & Opoku-Owusu, 2020, p.68).

Diaspora bonds remain an underutilized tool for development financing. Notable exceptions include Israel, which has raised over \$25 billion through its Development Agency since 1951, and India, which began issuing diaspora bonds in 1991 via the State Bank of India. Sri Lanka has also issued Development Bonds since 2001, targeting non-resident Sri Lankans among other investors. Other examples include South Africa and Lebanon (Ketkar & Ratha, 2007, p.2; 2010, p 251). Studies indicate that key determinants of diaspora bond investment include remittance levels per emigrant and the issuing country's sovereign credit rating. While investment decisions are not driven solely by profit, they are not entirely motivated by patriotism either—suggesting that diaspora loyalty is nuanced. This distinguishes diaspora bonds from conventional investments. Moreover, good governance tends to positively influence diaspora bond uptake (Akkoyunlu & Stern, 2018, p.73).

3.2. The Diaspora's Role and its Contribution in Turkish Economic History

Emigration from Türkiye, particularly to Western Europe, began in the 1950s and 1960s, partly driven by social and economic pressures from rapid population growth. During this period, many Western European countries experienced economic expansion but faced labor shortages, especially of skilled workers, prompting bilateral labor agreements with Türkiye between 1961 and 1967 with countries such as Germany, the Netherlands, France, Belgium, 1961 and 1967 with countries such as Germany, the Netherlands, France, Belgium, Denmark, Sweden, and Austria. While economic motives initially drove

migration, social and cultural factors—such as family reunification and marriage—later played a key role in sustaining and shaping emigration patterns (Gencer, 2011, p.67; Şahin, 2017; Öztürk, 2020, p.86). The first wave of emigration was based on economic motives. At the beginning of the 1960s, well-trained specialists were recruited from Türkiye, and from the mid-1960s unskilled workers were primarily recruited (Haab et al., 2010, p.36).

The government of the Republic of Türkiye has actively promoted labor migration abroad as a development tool, aiming to generate foreign exchange and cultivate a skilled workforce. This approach was formalized in the First Five-Year Development Plan (1963–1967), emphasizing that the experience and knowledge gained by Turks working in developed industrial countries—particularly in Western Europe—would contribute significantly to the Turkish economy. Additionally, labor migration was intended to help meet the domestic demand for skilled workers, a key driver of economic development (Erdoğan, 2015, p.117-118).

Most of the Turkish entrepreneurs in the EU (68%) live in Germany. This is followed by France and the Netherlands. In the 10-year period from 1996 to 2006, the investment volumes of Turkish enterprises increased from 6 billion Euros to 10.9 billion Euros. The turnover of 25.7 billion Euros in 1997 reached 45.4 billion Euros as of 2007. Parallel to the growth, the number of employed personnel also increased. The number of employees, which was 254,000 in 1997, is at the level of 469,000 in 2007. Considering that Turkish entrepreneurship in Europe is quite new, as in Germany, it should be expected that the growth will continue in the medium and long term (Şen et al., 2008, p.59).

Table 1. Distribution of Tourism Receipts, Expenditure, and Average Spending By Years

Years	TOTAL			CITIZEN RESIDING ABROAD (1)	
	Turism Income	Average Expenditure	Turism Expenditure (2)	Turism Income	Average Expenditure
	(1000 \$)	(\$)	(1000 \$)	(1000 \$)	(\$)
2015	37 700 923	906	6 296 506	7 270 820	1 207
2016	26 539 007	846	5 255 797	7 374 334	1 209
2017	31 253 835	809	5 487 607	7 210 947	1 102
2018	35 920 910	787	5 530 582	6 676 206	1 000
2019	42 851 778	826	4 655 848	7 014 139	981
2020	15 287 810	958	1 188 382	3 317 861	1 064
2021	30 528 342	1 032	2 203 157	6 507 848	1 201
2022	50 248 936	971	5 098 884	7 454 442	1 061
2023	56 439 612	979	8 429 980	8 391 864	1 086
2024	61 103 419	972	7 741 002	10 303 122	1 073

1) Tourism receipts from citizens residing abroad;

2) This constitutes outbound tourism expenditure by resident citizens;

Source: Republic of Türkiye Ministry of Culture and Tourism, Tourism Receipts and Expenditures, <https://engelsiz.ktb.gov.tr/TR-201116/turizm-gelirleri-ve-giderleri.html> (08.01.2026).

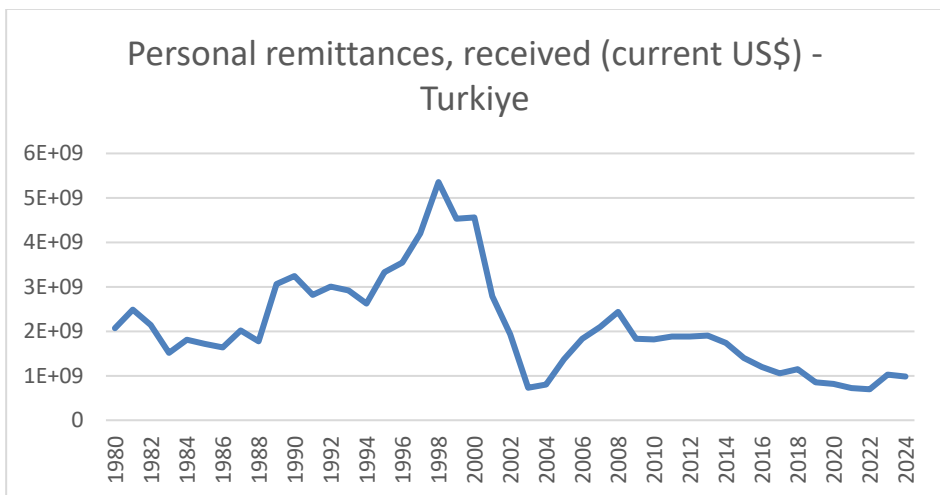
According to Table 1, approximately 15–20% of the tourists visiting Türkiye over the years consist of emigrants of Turkish origin living abroad. According to official statistics, these individuals incurred tourism-related expenditures exceeding 25 billion USD in Türkiye over the 2022–2024 period. In 2024 alone, tourism revenue generated from emigrants of Turkish origin amounted to approximately 10.3 billion dollars, representing around 16% of the country's total tourism income.

When we look at the average per capita expenditure, foreign tourists have spent approximately 880 dollars per person on average over these years, whereas emigrants of Turkish origin have spent 1211 dollars per person. In other words, individuals of Turkish origin spend about 37.6 % more per person than foreign tourists.

These figures indicate that visits by emigrants of Turkish origin to their home country play a significant role in Türkiye's tourism sector. Emigrants living abroad not only stimulate various sectors through tourism, but also contribute to reducing the foreign exchange deficit – and consequently the current account deficit – through the foreign currency inflow they bring into the country (Öztürk, 2020, p.101).

Koc and Onan (2004) demonstrate that remittances play a significant role in meeting everyday expenditures in Türkiye, particularly in less developed regions, and that households receiving remittances tend to be in a better economic position than those that do not. Consistent with broader findings in the literature, remittance income is primarily allocated to consumption-related expenses and investments in housing and land, while its transformation into long-term productive investments remains relatively limited. Overall, the study shows that remittances contribute positively to the welfare of migrant-sending households in Türkiye by increasing household income levels and supporting higher consumption capacity.

Figure 1: Migrant Remittance Inflows to Türkiye (US Dolar, million)



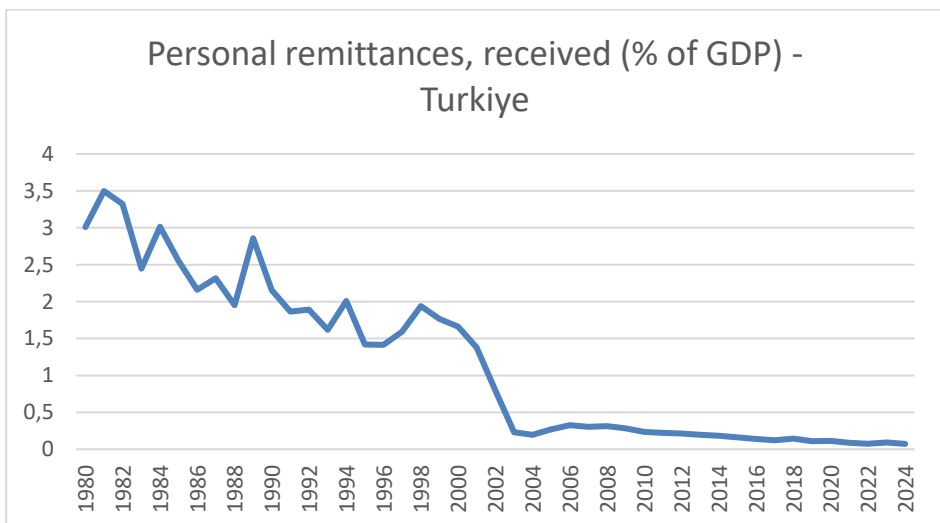
Source: World Bank, 2025, Personal remittances, received (current US \$), <https://data.worldbank.org/indicator/BX.TRF.PWKR.CD.DT?locations=TR>

As illustrated in Figure 1, migrant remittances to Türkiye continued to increase throughout the 1990s but declined significantly in the early 2000s. However, this trend reversed briefly in the early 2000s, before showing a continuous decline, particularly after 2008.

According to World Bank data, the countries with the highest remittance inflows to Türkiye from people of Turkish origin abroad as of 2016 were: Germany (\$571 million), France (\$99 million), the Netherlands (\$78 million), Austria (\$61 million), the United States (\$42 million), and Saudi Arabia (\$39 million). It is noteworthy that the total remittance inflow from the approximately 3 million people of Turkish origin living in Germany – including those who have acquired German citizenship – was only \$571 million. When compared to the \$2.1 billion in remittances sent by the 2 million Polish people living in Germany to Poland, it becomes evident that the remittance inflow from Turkish-origin individuals in Germany to Türkiye is significantly lower (Öztürk, 2020, p.102-103). In Öztürk's (2019, p.110-111) study, it is noted that people of Turkish origin living in Europe are predominantly engaged in the following sectors:

- a) Wedding and circumcision event organizations,
- b) The jewelry industry,
- c) The furniture sector,
- d) The construction/real estate sector, and
- e) The retail industry.

Figure 2: Personal remittances, received (% of Türkiye's GDP)



Source: World Bank, 2025, Personal remittances, received (% of GDP), <https://data.worldbank.org/indicator/BX.TRF.PWKR.DT.GD.ZS?locations=TR>

International migration has significantly influenced Türkiye's development, primarily

through remittances and skilled labor outflows. From the 1960s to 1990s, remittances were crucial for easing foreign exchange constraints, financing imports, and supporting development investments. Beyond economics, migration facilitated social transformation by exposing migrants and their families in Türkiye to modern practices, norms, and ideas. Many maintained ties through remittances, property acquisition, and investments, with some eventually returning to settle permanently (Ensari et al., 2023., p. 12; Fassmann and Sievers, 2014.p.21; İçduygu, 2014, p.1011).

A key measure in Türkiye’s economic history was the “Foreign Currency Convertible Deposit” (DÇM) scheme, which operated from 1967 to 1981. DÇM allowed individuals and institutions abroad to open foreign currency accounts in Turkish banks with an exchange rate guarantee, with the Central Bank of Türkiye assuming the currency risk, making it attractive for banks. In 1976, the Central Bank introduced “Letter of Credit Foreign Currency Deposit Accounts” (DTH or KMDTH) to encourage migrant workers to repatriate savings; unlike DÇM, DTH accounts did not require banks to transfer funds to the Central Bank and offered no exchange rate guarantee (Artukoğlu, 2005, pp. 26-27; Bulut, & Şahin, 2023, p. 219).

The next step of the study examines the causal relationship between the foreign trade deficit and remittances. This relationship is analyzed over two distinct periods: 1964–1980 and 1964–2020. The primary reason for focusing on the 1964–1980 period is Türkiye’s adoption of an export-oriented industrialization strategy beginning in 1980. The data used for this analysis are obtained from the World Bank database and complemented by data drawn from İçduygu (2014, pp. 120-121). The empirical analysis is conducted using the Eviews software package. The results are presented in Table 2 and Table 3.

Table 2: Granger Causality Tests (1964-1980)

Null Hypothesis:	Obs	F st.	Prob.
XM does not Granger Cause REM	15	26.8317	0.0001
REM does not Granger Cause XM		9.46021	0.0049

Table 3: Granger Causality Tests (1964-2020)

Null Hypothesis:	Obs	F st.	Prob.
XM does not Granger Cause REM	45	0.21696	0.8059
REM does not Granger Cause XM		0.95456	0.3936

Note: XM represents the foreign trade deficit and REM represents remittances. The results are calculated by the authors using EViews software. The null hypothesis of the Granger causality test is that there is no causality from the first variable to the second. Significance is determined at the 5% level.

In the study, the variable XM represents the foreign trade deficit, while the variable REM denotes remittances. The stationarity properties of the variables are examined using the Augmented Dickey–Fuller (ADF) unit root test (Dickey & Fuller, 1979). According to the test results, both variables are integrated of order one, I(1), indicating that they become stationary after taking first differences. The null hypothesis of the ADF test states that the series contains a unit root. This finding allows for the application of the Granger causality

test within the econometric framework (Granger, 1969, pp. 424-438). The empirical results are reported in Tables 2 and 3. The analysis indicates a bidirectional Granger causality between the foreign trade deficit and remittances for the period 1964–1980, whereas no statistically significant causality is found for the 1964–2020 period. These results are consistent with the literature, which emphasizes that remittances played an important role in financing Türkiye’s foreign trade deficit during the 1960s and 1970s by supporting imports and domestic demand. However, as migration patterns evolved over time, Türkiye’s development policies became less dependent on remittance inflows from workers abroad. (Ensari et al., p. 9).

Despite the diverse organizational structures of Turkish-origin emigrants in Western Europe, the Turkish diaspora lacks effective institutional support. A 2011 TOBB (Association of Turkish Chambers of Commerce and Stock Exchanges) policy document proposed measures to strengthen diaspora engagement, which can be grouped into three areas (Aydın, 2014, p.16): (1) enhancing the diaspora’s economic potential through professional support, business networks, and a global diaspora network; (2) promoting integration in host countries via training, internships, cultural institutes, legal support, and a diaspora fund; and (3) fostering stronger ties with Türkiye through extended citizenship, travel programs, and educational or internship initiatives in the homeland.

Many studies indicate that diaspora financial transfers to Türkiye have been declining. Bettin et al. (2012, p.15) note a significant reduction, particularly since 1998. This decline is attributed to weaker ties of newer generations with Türkiye, who often choose to settle permanently and invest abroad, as well as economic crises in the 2000s, which undermined confidence and reduced remittance flows.

Studies emphasize that diasporas are more effective in promoting development when supported by a favorable legal and economic environment, with good governance being essential to reinforce their positive impact (Vanore, 2018, p.1). Research on Türkiye indicates that economic and political stability—such as low inflation, democratic governance, and the absence of black market distortions—significantly influences diaspora remittances (Aydas et al., 2005, p.62). Since the 1980s, investment motives have become increasingly important in diaspora financial flows, highlighting the role of economic and financial stability in attracting diaspora capital to the country (Aydas et al., 2005, p.65).

4. Discussion and Conclusion

Developing countries often face financing gaps due to low domestic savings, making external resources vital for economic development. In this context, diaspora communities contribute through remittances, direct investment, entrepreneurship, and knowledge transfer. Since the 1960s, Türkiye has benefited from labor migration to Europe—especially Germany—receiving both foreign exchange and human capital, with the diaspora primarily supporting the economy via remittances and current account balance.

Studies show that Turkish-origin migrants abroad have gradually enhanced their economic standing and contributed to Türkiye through investments and financial support to relatives. While the first generation focused largely on real estate, later generations increasingly invest in holiday homes, land expansion, and larger-scale housing projects, motivated by belonging, leisure, investment, and social prestige

(Çelikoğlu & Atış, 2022, p. 1604; Hacıoğlu & Karaca, 2025, p. 214; Kütük & Kahveci, 2025, p.193).

A study in Trabzon examined socio-economic and occupational changes of former guest workers before, during, and after migration, finding that 31 percent changed sectors—most commonly from industry to services—while those in agriculture prioritized land acquisition for productive or speculative purposes (Toepfer, 2022, p.76). Although Türkiye–EU relations date to the 1960s, limited progress toward full membership has been made; however, further integration could enhance direct investments in Türkiye by Europeans of Turkish origin (Hadjit & Moxon-Browne, 2005, p.335; Dutz et al., 2005, pp.261–293).

In countries like Indonesia and Türkiye, public investments are largely financed by state and local governments, and diaspora communities often maintain strong ties to their specific regions or municipalities (Terrazas, 2010, p.20). Remittances from migrant workers provide crucial household income and help meet foreign exchange needs, partially financing trade deficits. While savings are mainly directed toward real estate rather than productive investments, the skills and experience acquired abroad remain significant. Although permanent emigration limits the full realization of

human capital benefits for Türkiye, diaspora-driven entrepreneurial activities abroad have strengthened commercial relations between host countries and Türkiye (Sugözü & Yaşar, 2021, pp.368–369).

Approximately 15–20% of tourists visiting Türkiye are Turkish-origin emigrants, who spend on average \$891 per capita—about 32% more than other foreign tourists (\$678)—highlighting their economic significance for the tourism sector. Diaspora Direct Investments are considered more stable than other FDI, even under adverse economic conditions, and Turkish-origin residents in Europe can transfer high technology, R&D, and best practices to Türkiye while facilitating exports through their international networks. Streamlined bureaucratic processes and targeted incentives could further enhance these investments (Öztürk, 2020, pp.104-106).

Especially since the 2000s, there has been a decrease in the remittances made to Türkiye by people of Turkish origin living outside the country. Although a decrease was observed in remittance flows after the two financial crises that affected the Turkish economy in the 2000s, it can be stated that investment motives still play an important role in determining the remittance behavior. The literature suggests that the primary reason for the decline in the amount of foreign exchange sent to Türkiye by emigrants is the instability of the Turkish economy and the consequent decline in economic confidence. This situation played an important role in negatively affecting the attitudes of emigrants towards remittances (Bettin et al., 2012, p.15).

Contributions of the Turkish diaspora in Western Europe have historically centered on remittances and supporting the current account balance. While remittances played a significant role in the 1960s–1980s—evidenced by bidirectional Granger causality with the foreign trade deficit—their influence has declined as Türkiye’s development policies shifted toward retaining skilled professionals and leveraging diaspora expertise. Recent Development Plans, including the 11th (2019–2023), emphasize part-time training, research, and investment from highly skilled expatriates, though economic instability and

market constraints limit policy effectiveness (Ensari, 2023, p.13).

Peer-Review	Double anonymized - Two External
Ethical Statement	* It is declared that scientific and ethical principles have been followed while carrying out and writing this study and that all the sources used have been properly cited.
Plagiarism Checks	Yes - Ithenticate
Conflicts of Interest	The author(s) has no conflict of interest to declare.
Complaints	itobiad@itobiad.com
Grant Support	The author(s) acknowledge that they received no external funding in support of this research.
Use of AI Tools	The author used AI tools (e.g. ChatGPT and Gemini) only for language editing and formatting support, including APA 7 reference list organization.
Değerlendirme	İki Dış Hakem / Çift Tarafli Körleme
Etik Beyan	* Bu çalışmanın hazırlanma sürecinde bilimsel ve etik ilkelere uyulduğu ve yararlanılan tüm çalışmaların kaynakçada belirtildiği beyan olunur.
Benzerlik Taraması	Yapıldı - Ithenticate
Etik Bildirim	itobiad@itobiad.com
Çıkar Çatışması	Çıkar çatışması beyan edilmemiştir.
Finansman	Bu araştırmayı desteklemek için dış fon kullanılmamıştır.
Yapay Zekâ Kullanım Beyanı	Bu çalışmada dil düzenleme ve APA 7 kaynakça biçimlendirme desteği için yapay zekâ tabanlı bir dil asistanından yararlanılmıştır.

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