

**T.C.
SAKARYA UNIVERSITY
SOCIAL SCIENCES INSTITUTE
DEPARTMENT OF ISLAMIC ECONOMICS AND FINANCE**

**THE IMPACT OF FOREIGN DIRECT INVESTMENT (FDI) AND
TOURISM ON THE PROFITABILITY OF ISLAMIC BANKS:
EVIDENCE FROM TURKEY**

Rayan CİVAN

MASTER DEGREE THESIS

Thesis Supervisor: Assist. Prof. Shabeer KHAN

JUNE - 2023

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**“This thesis was defended hybrid on 02/06/2023 and was unanimously
accepted by the jury members whose names are listed below.”**

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Rayan CİVAN

02/06/2023

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To begin, I'd like to give my thanks to Dr Shabeer KHAN, my supervisor and a major influence on my study. Without his consistent supervision, advice, and encouragement, this paper would not exist. This investigation would not have been possible without his consistent contribution of substantial information and insight. We owe our success in writing this research paper to his unending support and encouragement. So, I'd want to express my deepest thanks to him for serving as the paper's lynchpin; without his support, I wouldn't have been able to complete this project.

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ABBREVIATION

FDI	: Foreign Direct Investment
GMM	: Generalised Method of Moments
ML	: Maximum Likelihood
TNC	: Transnational Companies



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ABSTRACT	
Title of Thesis: The Impact of Foreign Direct Investment (Fdi) And Tourism on the Profitability of Islamic Banks: Evidence from Turkey	
Author of Thesis: Rayan CIVAN	
Supervisor: Assist Prof. Shabeer KHAN	
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After reviewing some earlier studies, it was determined that the impact of tourism and foreign direct investment on the profits of Islamic banks in Turkey has not been adequately addressed. In addition to this, because tourism and foreign direct investment constitute a significant portion of a country's overall source of revenue, it was determined that this topic warranted further investigation because of the importance of the topic and the objective that it sought to accomplish. For the sake of the Turkish economy, it is important to carry out the aforementioned study in order to ascertain the nature of the aforementioned effect and to make an effort to propose some solutions that not only benefit the economic aspect of the topic at hand but also enhance its literary dimension. This study provided some tips regarding the utilization of these two sources of funds. The main objective of this study is to look at how foreign direct investment and tourism affect the profitability of Turkish Islamic banks. The data of three out of six Islamic banks operating in the Turkish banking industry is analysed using static and dynamic panel generalized methods of moments (GMM) estimate approaches for the period 2009-2020. The study indicates that foreign direct investment has a beneficial impact on the profitability of Islamic banks, whereas tourism contributes negatively to the profit of the Islamic financial institutions . The study recommends that the government need to focus on enhancing FDI and tourism to boost financial development.	
Keywords: FDI, Tourism, Islamic Banks Profitability, GMM	

ÖZET	
Başlık: Doğrudan Yabancı Yatırım (Dyy) ve Turizmin İslam Bankalarının Kârlılığına Etkisi: Türkiye Örneği	
Yazar: Rayan CİVAN	
Danışman: Dr. Öğr. Üyesi Shabeer KHAN	
Kabul Tarihi: 02/06/2023	Sayfa Sayısı: viii (ön kısım) + 87 (ana kısım)
Daha önce yapılan bazı çalışmalar gözden geçirildikten sonra, turizmin ve doğrudan yabancı yatırımın Türkiye'deki İslami bankaların kârları üzerindeki etkisinin yeterince ele alınmadığı belirlendi. Buna ek olarak, turizm ve doğrudan yabancı yatırım bir ülkenin toplam gelir kaynağının önemli bir bölümünü oluşturduğundan, konunun önemi ve ulaşmak istediği amaç nedeniyle daha fazla araştırmaya ihtiyaç duyduğu belirlenmiştir. Söz konusu etkinin niteliğini tespit etmek ve konunun sadece ekonomik yönüne değil, aynı zamanda ekonomik yönüne de fayda sağlayacak bazı çözümler önermeye çalışmak için söz konusu çalışmanın yürütülmesi Türkiye ekonomisi açısından önemlidir. edebî boyutunu geliştirmektir. Bu çalışma, bu iki fon kaynağının kullanımına ilişkin bazı ipuçları sağlamıştır. Bu çalışmanın temel amacı, doğrudan yabancı yatırım ve turizmin Türk İslami bankalarının kârlılığını nasıl etkilediğine bakmaktır. Türk bankacılık sektöründe faaliyet gösteren altı İslami bankadan üçünün verileri, 2009-2020 dönemi için statik ve dinamik panel genelleştirilmiş momentler (GMM) tahmin yaklaşımları kullanılarak analiz edilmiştir. Çalışma, doğrudan yabancı yatırımın İslami bankaların kârlılığı üzerinde olumlu bir etkiye sahip olduğunu, turizmin ise İslami bankaların kârına olumsuz katkıda bulunduğunu göstermektedir. Çalışma, hükümetin finansal gelişmeyi artırmak için doğrudan yabancı yatırımları ve turizmi artırmaya odaklanması gerektiğini önermektedir.	
Anahtar Kelimeler: DYY, Turizm, İslami Banka Karlılığı, GMM	

INTRODUCTION

The purpose of this section is to introduce the issue statement and the context of the research. After then, the study focuses on its research questions and its research aims. After that, we'll talk about the study's objectives and scope before discussing its theoretical, practical, and societal value. The chapter ends with a brief summary and a glossary of the chapter's terminology. As a result, this section serves as a synopsis of the whole thesis. The banking industry holds a significant responsibility in facilitating economic growth, particularly in the financial sector, by effectively channelling savings into investment opportunities, which are crucial for development. Banks are necessary as a safe channel between savers and borrowers. The banking sector must connect savers and borrowers, as well as handle all aspects of the secure and profitable transfer of currency (Saif-Alyousfi, 2021).

In Turkey, where the banking industry is particularly significant, Islamic banks play an especially significant role, as seen by their fast rise in recent years. Foreign direct investment and tourism have a significant influence on the economy of a nation like Turkey, and this research relied on the fact that Islamic banks are present in the country's economy to determine whether there is an impact on the economy of these sectors.

60 years ago, Islamic banking was introduced. The Egyptian economist Dr. Ahmad El-Najjar pioneered interest-free banking in Egypt in 1963 by establishing the Mit Ghamr savings scheme. First, of its kind, this interest-free bank was established by Dr. El-Najjar and community volunteers. The bank was based on the rural banking model of a German cooperative savings bank when it was established. In 1963, the Tabung Haji institution was formed on the opposite side of the globe, at the same time as the Egyptian experiment Mit Ghamr. In order to pay for the Hajj pilgrims' expenses, this institution planned to manage their savings over time in a Shariah-compliant way. Although the Tabung Haji institution is no longer in existence, the foundation it established for Malaysia to become a worldwide leader in Islamic finance and banking is still there. It wasn't until 1983 that Bank Islam Malaysia became Malaysia's first fully-fledged commercial Islamic bank (Habib 2018).

Qur'anic principles govern Islamic financial organizations in all of their endeavours. Because of this, they are so distinct from conventional institutions, which are not concerned with religious matters. In accordance with Islamic law, Islamic banks provide a range of financial services to their customers. Customers of Islamic financial institutions are exempt from paying interest (the Arabic term for which is *riba*). All transactions are prohibited from including the payment or receipt of interest. The Islamic banking system differs from the conventional banking system in that it forbids this practice (Kettell, 2011).

Until recently, they were known as 'Private Finance Institutions' in Turkey, where they first appeared in the early 1980s. Since the start of 2006, 'Participation Banks,' the new name for 'Special Finance Institutions,' under Banking Law No. 5411, have been in effect. Due to Islam's strict prohibition on interest, Participation Banks aim to serve both the economic and social needs of its members by participating in the institution's profits and losses. Profit-and-loss participation-based banking was first incorporated into the Turkish financial system with the idea of "private finance institution," according to a Decree-Law (KHK) authorised by Ministers in 1983.

Due to concerns about the need to explain the phrase "Special Finance House," as well as to dispel addressees' doubts about dealing with a "bank participation," which represents profit-loss participation within interest-free principles, describes the sector and area of activity in which they are involved. It was in accordance with the Banking Law Numbered 5411 that they started using the term "participation bank" to designate themselves (Eskıcı, 2007).

This includes three private and three publicly owned institutions in Turkey, totalling six Islamic financial institutions. Türkiye Finans Participation Bank, Kuveyt Türk Participation Bank, and Albaraka Türk Participation Bank are participating private Islamic banks. Banks owned by the Turkish government include Emlak and Ziraat, as well as the Vakıf and Ziraat Participation Banks (TKBB, 2022).

And from the premise that Islamic banks take deposits like other banks to be operated and share profits or losses coming from the operation, and therefore banks obtain a margin in addition to their earnings from this finance. The Turkish economy relies heavily on foreign investment and tourism, and as a result, deposits and operations at

Islamic banks in Turkey are partly funded by these two sources. Consequently, there will be a profit margin as a consequence of these deposits. These banks' profitability may be impacted by FDI and tourism, and the case study aims to investigate this.

In 2021, Turkey's tourist revenue grew by 103% over the previous year. Tourism revenue in Turkey climbed by 103 percent in 2021 and reached 24 billion 482 million 332 thousand dollars, with 29 million 357 thousand 463 tourists departing the nation (AA, 2021).

Economic development depends heavily on foreign direct investment (FDI) and tourism. It is also one of the fastest growing and the world's biggest service sectors. Improved job possibilities, new/added investments in infrastructure, enhanced taxes, and increased foreign currency earnings are all ways in which they contribute to the economy. This expansion is made possible by the money they get, both directly and indirectly.

As a direct consequence of increasing government revenues from FDI and tourist receipts, the national economy's growth prospects are bolstered. More FDI and tourist visits in an economy lead to higher demand for different products and services, better business attitudes, and more optimistic public expectations. Increased FDI and tourist receipts spur new public and private investments in production capacity to fulfil the growing demand in the economy.

According to theory, a rise in the flow of foreign direct investment (FDI) as well as an increase in tourism signifies an increase in the liquidity of the financial system and hence a high capacity to finance and make profits. These studies are thus based on numerous issues, such as: Is there an influence on the profitability of Islamic banks with direct foreign investment? Is the profitability of the same banks affected by tourism? Is there a clear correlation between the earnings of Islamic banks in Turkey and tourism and direct foreign investment?

This research makes a number of important additions to the literature on FDI and tourism. First and foremost, this is the first research of its type to look at the influence of FDI and tourism on the financial viability of Islamic banking institutions. as a whole. A sampling of Islamic banks in Turkey may be the first time this has been done. It also examines two main sources of liquidity in Turkey's financial system and shows how

they affect Islamic banks' profits so that they may adjust their tactics accordingly. Unlike prior research, these studies focused on Islamic banks, while previous studies focused on regular banks.

Using FX Effect, Random Effect, and GMMS models, the study analysed the profitability of three prominent Islamic banks in Turkey, namely Türkiye Finans Participation Bank, Kuveyt Türk Participation Bank, and Albaraka Türk Participation Bank, over the period spanning from 2009 to 2020.

According to the findings, FDI has a beneficial influence on these banks' profitability, but tourism has a negative effect. This research's conclusions are comparable to the Saif-Alyousfi (2021) study, which indicated that tourism had a detrimental effect on bank profitability. The current study, as well as the effect of foreign direct investment on profitability, is linked to a study by Güven and Şentürk (2021), which found that foreign direct investment, has a positive impact on bank profitability.

Subject of the Study

As a consequence of globalisation, FDI has boomed in recent decades, bringing about economic development and transformation via the importation of foreign capital, resources, and expertise. Foreign direct investment (FDI) in the tourism industry benefits both the home and host countries by increasing employment and output while also disseminating best practises in management and technology (Selvanathan, Selvanathan, & Viswanathan, 2012; Tang, Selvanathan, & Selvanathan, 2007). As the host country's access to capital is frequently limited and inadequate to spend on the essential re-engineering of tourism instruments (Rajapakse, 2016), FDI is typically viewed as one of the finest sources of funding for the tourism sector. Therefore, governments in developing and emerging economies often emphasise recruiting FDI by trying out new approaches (Zhang, Chong, & Ap, 1999).

Most significantly, tourism helps countries achieve five of their most pressing socioeconomic goals: increased GDP, new jobs, foreign exchange earnings, improved living standards, and diminished poverty (Amin & Khan, 2018; Amin & Rahman, 2019). Many empirical studies have looked at the connection between tourism and economic growth and found both a correlation and a causal relationship (Balsalobre-

Lorente, Driha, & Sinha, 2020; Payne & Mervar, 2010), demonstrating the importance of the sector to both.

Since the tourism sector requires capital, infrastructure, experience, and access to global marketing and distribution networks to grow and thrive, FDI is an aspect of globalisation that ties the two together (Banerjee, Cicowiez, & Gachot, 2015; Stauvermann & Kumar, 2017). Capital-intensive tourism projects might have prohibitively high initial expenses, making it imperative that they have access to financial resources in order to foster tourist expansion and economic progress.

Few pieces of literature have concentrated specifically on the association involving foreign direct investment (FDI) and the tourism sector, despite many studies on FDI and economic growth, tourist development, and economic growth. Samimi, Sadeghi, and Sadeghi (2013) used dynamic panel data analysis to find a link between FDI and tourism in low-income countries. Sanford and Dong (2000) found unidirectional causality between international visitors and straight foreign investment in the United States. Foreign direct investment (FDI) and tourism growth in Vietnam were shown to have mutually reinforcing relationships by Sadi and Henderson (2001). In many emerging and expanding countries, like India, Turkey, and China, some scholars found evidence of a tourism-FDI connection (Selvanathan et al., 2012; Tang et al., 2007). Many empirical studies have looked at the connection between tourism and economic growth and found both causality and correlation relationship (Balsalobre-Lorente, Driha, & Sinha, 2020; Payne & Mervar, 2010), demonstrating the importance of the sector to both.

As a lesser and less reliable contributor to economic growth, tourism has generally lagged behind other sectors like manufacturing and agriculture. The current "quiet but important reassessment" sees tourism as a way to diversify the economy and make it more service-oriented, as well as a way to help revitalise metropolitan areas and cultural activities that have been on the decline, as well as open up previously inaccessible rural regions. For instance, "pro-poor tourism" is gaining interest among funders and development assistance organisations, and there is a growing corpus of study on the topic.

FDI is one of the ways that developing nations might fund tourism, but the dynamics of FDI in this dynamic industry, as well as its repercussions, have received little attention. There is relatively little empirical data on the scope and overall the impact of vacationing -FDI on the global economy. The goal of this paper is to give information and insights to aid policymakers in designing policies that best support their development objectives and plans, since tourism is an industry that must be properly managed regardless of FDI, and FDI poses particular problems and issues.

Tourism has enormous growth potential since it connects a variety of cross-cutting businesses, including the supply of products and services such as lodging, transportation, entertainment, construction, and agricultural and fisheries production. Its industrial structure includes a broad range of companies, from global TNCs to smaller and larger businesses (SMEs). This allows for engagement in the sector on a variety of various stages and market levels. Additionally, since the client comes to the maker rather than the other way around, even the smallest transaction may benefit the global economy: each sale to a tourist, whether it be fruit or a haircut, constitutes an export. This is a significant opportunity, especially for small businesses that would otherwise struggle to penetrate the global supply chain. Tourism, if properly handled, should provide enormous prospects for poverty reduction simply via its income-generating and job-creating benefits.

Tourism, on the other hand, is a delicate industry that is prone to external shocks - economic, environmental, and political - as well as has the ability to create issues of its own. Its interdisciplinary character may also imply possible social and economic implications for communities and the environment. Its employment potential is not always fully utilised: pay might be poor, and human resource policies, in general, need improvement. Tourism has also been linked to unsavoury, even illegal, actions or, more broadly, to the erosion of traditional values. Even in the absence of such issues, many developing nations believe that tourism has failed to provide the projected advantages. Its negative effects on communities may be severe, and they must be carefully balanced against the possible advantages. The lesson for developing nations is that tourism must be properly controlled if it is to provide the expected advantages while not compromising the local economy, ecology, social customs, and cultural resources.

Businesses and industries are continuously looking for a positive gain or profit after deducting all of their expenditures. However, the capacity to make a profit is the most crucial factor in an enterprise's existence. Profitability was established by combining the two terms, profit, and ability. The word earning performance refers to a company's financial and operational capacity to generate profits. The profit number indicates the amount earned and the efficiency of a firm over a certain time, but it cannot provide us with a precise sense of the change in the enterprise's performance. As a result, profitability varies from profit. It's not a monetary value, but rather a gauge of the asset's return. Actually, profitability refers to a company's capacity to develop in the future and earn more money. It is also a lot superior tool for making the decision between various actions simple and clear. Three types of factors influence profitability: those unique to the company itself (such as operational efficiency, firm size and age, and capital ratio), those unique to the industry in which the company operates (such as ownership and concentration), and economic variables (such as inflation and cyclical output). Price, discounting, and commission arrangements, in addition to taxes, all have an effect on earnings. Innovation in processes, expansion in debt, and high financial outlays are all ways in which a business might be described. Factors that may affect profits include time variability, leverage ratio, financial risk, business model, lag profit, and overall economic conditions. Profitability expansion is primarily controlled by factors such as size, discount and commission rates, operational efficiencies, pricing, increase in total loans, and financing costs, with capital ratio, loan-loss provisions, and expenditure management potentially playing the most important roles. Even while market forces has a considerable result on the profitability of most firms and sectors in the contemporary economy, a vast quantity of establishments operate as financial intermediaries and affect the economy significantly and need to be taken into account.

Moreover, the majority of companies' overseas operations improve the efficiency and integration of the global economy. In addition, businesses can't endure for very long if they aren't making money. Therefore, profits should be the first concern of every business owner. However, there are limitations facing firms that cut into their profits.

In other words, profitability varies due to factors for example, yearly and climate, policies of the government, economic instability, inflation, taxes, privatisation, and so on are some of the factors that contribute to it. The preceding highlights the significance

of the study on profitability drivers. Indeed, researching these aspects has become critical not just for corporate survival and profitability but also for economic progress.

The previous study has carefully analysed the profitability of the tourist business. In fact, many studies believe tourism to be a crucial component of expanding economy. Scholarly reports suggest (Belloumi, 2010; Akinboade, Braimoh, 2010; Brida, Risso, 2009; Brau et al., 2003), elevated levels in the number of visitors to the nations contributes to increase in the country's gross product and the decrease of labour rates.

Specifically for the Pacific island nations of Fiji, Tonga, Solomon Islands, and Papua New Guinea (Narayan et al., 2010), African nations (Lee and Chang, 2008), the transitory importance ranged from economic development to the tourist sector. In reality, the current economic climate has less of an impact based more on output than industry profits (Bodie et al., 2008). As a result, the perception of the tourist industry is closely related to the economic section.

It is well acknowledged that tourism is one of the largest generators of revenue and foreign exchange for many nations. One of the most lucrative service sectors is this one, and it is widely seen as a significant component of the modern international economy. In addition, economic circumstances have an impact on the success of businesses catering to tourists. It shows that while the economy is doing well, profits rise, but plummet when times are bad.

In reality, the economic and tourist industries are mutually beneficial. Seasonal fluctuations have an impact on this sector owing to the nature of the service and the kind of customers. As a result, peak sales of tourism services are directly related to vacations and climatic appropriateness. Furthermore, there are other hidden expenditures associated with tourism that might have a detrimental impact on profitability. There is little question that the tourist industry's profit and performance are vulnerable to climate change, economic circumstances, and other variables. As a result of the volatility of profitability and the importance of tourism in progress in the economy, it is critical to research the drivers of profitability in this industry.

This research will aim to find the correlation between foreign direct investment as well as the profitability of Islamic banks. FDI plays a crucial role, as we now know, in every country's development, and we hope to find the economic impact it has on the national

as well as the private banks of Turkey. We also aim to find the impact tourism has on the bank's profitability. We know that certain country directly contribute to the GDP of a nation and we wish to find the significant correlation between these two variables namely tourism and Islamic bank's profitability in this research paper. This study will provide the empirical evidence with sufficient back up.

This leads to the formulation of research questions that are designed to help us reach our goals:

1. What is the effect of foreign direct investment (FDI) on the Islamic bank's profitability?
2. What is the impact of tourism on the Islamic bank's profitability?
3. Is there any correlation between FDI and tourism?

Aim of the Study

This research establishes the primary goals after a comprehensive analysis of the relevant literature. Since the moneymaking potential of Islamic banks is the primary concern, it is really vital that identify the variables that have an impact on that metric. This study focuses on the FDI as one of the important factor that contributes in the Islamic bank's profitability. The FDI directly injects funding into the economy of a nation and thus the profitability of the banks is also thus able to implicate the impact of the same. The other important factor that we are considering in this research is the effect of tourism on the bank's profitability. Thus the Tourism of the nation contribute directly towards the bank's growth or does it adversely affect the same in which funding is required and where there is an outward flow of money in order to fund the tourism. These are the key aspects that this study aims to provide and thus give us an empirical evidence to prove our hypotheses.

The following is a condensed summary of the objectives of the research that is being carried out here:

1. To analyse the effect of foreign direct investment on the bottom line of Turkey's Islamic banking sector.
2. For examination the connection amongst the Tourism and the Islamic bank's profitability in Turkey.

3. For examination the connection between the FDI and the Tourism in Turkey.

Importance of the Study

The study scope lays forth the parameters for the boundaries within which the study may be conducted. The banking sector was selected for this investigation. The Islamic financial institutions in Turkey are among those considered. The profitability of these aforementioned institutions and the two elements accountable for it are the primary foci of the research. Foreign direct investment is considered together with the other significant aspect, tourism.

This study examines the impact of the FDI on the Islamic bank's profitability and how foreign money injected into the nation's economy affects the profitability of these banks and to what extent. Nevertheless, this project demonstrates that chooses the responses of those financial institutions that participate in FDIs. Because of the study's narrow focus on the travel and banking industries, the vast majority of our respondents have come from these fields, and they have also provided the bulk of the information we've used in shaping our findings.

Our research is meant to serve as a springboard for future strategic planning and long-term growth in the tourism industry by government officials and other relevant tourism stakeholders. When it comes to making judgements concerning tourism and the businesses it directly affects, banks may also take the necessary precautions. In this study, we will provide several recommendations for gaining insight into and emphasising this issue.

Method of the Study

The research design for this study is a quantitative research. This design is appropriate because it allows for the collection of numerical data that can be analyzed statistically to test the hypotheses and answer the research questions. The study use secondary data collected from financial statements of Islamic banks operating in Turkey. The study use panel techniques, i.e., fixed effect, random effect, and GMM models. These tests include normality, multicollinearity, and heteroscedasticity tests. The dependent variable is profitability measured by net income (NI). The independent variables are tourism measured by number of tourists (NOT) and foreign direct investment (FDI) measured

by FDI inflows (FDI). The data collected will be analyzed using multiple regression analysis to determine the relationship between tourism, FDI, and profitability of Islamic banks in Turkey.

The Case for Free Capital Flows

Most economists agree that free international commerce is desirable because it allows capital to flow to the areas of the globe where it will provide the highest return. The advantages of free capital flows, Feldstein contends, may increase (2000). To begin, the decreased total risk carried by capital's owners is a direct result of the capacity to diversify lending and investment options made possible by capital inflows from outside the economy. Second, the globalisation of financial markets has the potential to hasten the propagation of industry best practises in areas like as law, business governance, and accountancy. Third, the global circulation of money limits governments' ability to pursue destructive policies.

Feldstein (2000) and Razin and Sadka (2007) both remark on the fact that the advantages to host countries from FDI may take several forms (forthcoming). Theoretically, these advantages extend to all forms of private capital injections.

Technology transfer, particularly in the form of novel capital inputs, is a key aspect of FDI that sets it apart from traditional forms of investment and trade. Competition in a country's homegrown input market may rise if international firms began investing there.

Countries that attract foreign direct investment often see an increase in their human capital as a consequence of the training their employees get as a result of establishing and maintaining new businesses. The earnings earned by FDI are taxed in the host country, benefiting corporate tax collections there. However, governments often forfeit some of that money while they lower corporate tax rates to attract FDI from outside. As an example, this competition might explain the dramatic decline in corporation tax receipts seen by certain OECD countries over the last few years. (There is further discussion in Reint Gropp and Kristina Kostial's article in this issue.) As a result, FDI is expected to promote exploitation and growth in nations of residence via a variety of channels.

Compare Foreign Direct Investment to Other Flows

Even if there is a sound theoretical case for free money flows, the conventional wisdom now holds that many private funding transfers actually have unintended negative effects. Foreign loan flows, especially those of the short-term kind, are seen as "bad cholesterol" by many host countries, even those who are in favour of capital inflows, according to research by Hausmann and Fernández-Arias (2000).

Interest rate differentials and currency rate assumptions are examples of the speculative nature of foreign short-term loans rather than actual long-term demands. Implicit exchange rate guarantees are an example of a moral hazard that may distort markets or the readiness of governments to rescue the financial industry, are frequently to blame for its erratic behaviour. It's the first to abandon ship when things go south and it's to blame for the boom-and-bust patterns of the 1990s.

On the other hand, FDI is considered "good cholesterol" since it has the potential to bring about the aforementioned benefits. One such benefit is the widespread opinion that FDI is "bolted down and cannot leave so quickly at the first hint of disaster." Direct investments in a nation may be promptly recouped in the case of a tragedy, unlike short-term debt.

The Impacts of Tourism Related FDI:

The impact are both positive and negative – are numerous, complex and nuanced.

1. The effect on consumption habits.

TNCs have helped raise the profile of host countries internationally, and the presence of global brands has made such countries more desirable as tourist destinations (e.g. in Bhutan and the United Republic of Tanzania). Some sectors, such as banking or insurance, have a history of instability, yet TNCs may be more durable and stable than local firms, helping to sustain the stability (and confidence) of the economy. On the other hand, TNCs may help a country maintain its reputation as a low-quality tourism destination (e.g. the Dominican Republic). In addition, they could be sporadic, with either a complete or partial disappearance occurring in reaction to changes in foreign tourists' tastes and the tourism industry's general trajectory (as evidenced, in the report, by a number of hotels leaving Tunisia with little forewarning).

2. The effect on human resources.

Employment is created by tourism-related MNCs, and typically at a higher rate per unit of business than is seen with smaller, locally-owned businesses, leading to a stronger and varied labour force. Multinational businesses (MNCs) often provide better compensation and perks to its employees. In more advanced economies or those where the government has historically invested in training, such as Kenya, the gaps between TNCs and local businesses shrink or disappear altogether.

3. The effect on home-grown businesses.

Multinational companies (MNCs) make more efforts than comparable domestic businesses to forge relationships with regional vendors and retailers while serving tourists. Because of this, the economy expands and new opportunities arise. In some sectors, such as the hospitality industry, where foreign and domestic entrepreneurs serve different sorts of customers, there is little evidence of TNCs displacing local rivals. Local investors were driven out of Tunisia, for example, when government-subsidized loans were made open to both local and international commercial interests. There is some data suggesting that TNCs may have positive consequences, particularly in the form of competitive and demonstrative effects.

The previous section has provided a summary of the research and highlighted its key findings and implications. Subsequent chapters will provide greater detail and make up the meat of the study. Previous research on foreign direct investment, tourism, and the financial success of Islamic banks is discussed in Chapter 2's literature review. The theoretical foundation and hypothesis formulation round out this chapter.

The approach used to complete this study will be presented in Chapter 3. All aspects of the survey's demographic, sample, data collecting, and measurement tools fall under this category. In the next chapter, we will offer the study's results and analyses. The study's findings from its hypothesis testing are presented at the end. Chapter 5 is the concluding chapter of this research project, and it covers the study's implications, recommendations, and summary.

CHAPTER I: LITERATURE REVIEW OF TOURISM, ISLAMIC BANKING, AND FDI IN TURKEY

1.1. Introduction

Concerning current investigation are the themes explored in this chapter. Previous studies are thoroughly discussed, as are the ideas, concepts, and theories that formed the basis for this investigation. It covers main topics that are related to FDI, Tourism as well as the Profitability of Islamic banks with regard to Turkey as a nation. The chapter ends with the hypotheses development as well which is used in this thesis to test the theory. As a result, this article has offered a complete summary of the relevant literature.

1.2. Overview of the Tourism Industry in Turkey

Zamani and Farahani (2010) examine what makes Islamic countries attractive tourist destinations. They examine a variety of aspects, including as politics in relation to tourism, management, marketing, and community participation, in order to better understand how Islam and tourism are connected. The Muslim Tourist Detection Value (MTPV) scale was created by Riyad Eid and Hatem El-Gohary (2014). It consists of 24 different aspects and may be broken down into categories such as quality, price, social, emotional, and physical characteristics, as well as non-Islamic physical characteristics. The multifaceted approach used in the creation of the scale is apparent. A total of 537 Muslim vacationers were used to validate the accuracy of the scale. The authors have used this scale to identify a variety of operational parameters that provide tourist businesses an edge in a fast-changing industry.

According to Battour et al. (2011), it's possible for create Halal Travel bundles that focus upon the unique characteristics of Islamic travel hotspots. Two focus groups and 53 in-depth interviews were performed in Malaysia to collect qualitative data. According to the authors' research, places of worship and Halal cuisine are two of the essential amenities for Muslim visitors. The writers also provide advice on how to cater to the unique requirements and preferences of Muslim travellers.

The goal of Jafari and Scott's (2014) work is to familiarise non-Muslim visitors with key principles and practices of Islam. To this purpose, they investigate the potential for

adding tourism-related coursework at the collegiate level. They claim that if this were done, tourism studies might expand to include more diverse viewpoints. The researchers are also curious in the habits and requirements of Muslim vacationers. The Muslim world is singled out as a source of potential fresh ideas and possibilities. In 2015, researchers in Riyadh set out to determine what factors make up Value as Perceived by Muslims (MCPV).

The study's authors seek to learn more about the correlations across ratio scale and other variables, including Muslim client retention, satisfaction, and loyalty. Its secondary objective is to use the MCPV's findings to create and evaluate a tourism-specific conceptual model. There are a total of 221 samples and 13 hypotheses in this investigation. The reliability of the measures was investigated using an exploratory and confirmatory factor analysis.

Structural equation models were used to check the assumptions. The findings demonstrate that suggested MCPV model's qualities are crucial to winning the devotion of Muslim vacationers. Results suggest that the value of the proposed Islamic attributes, in addition to the traditional value dimensions, is important in ensuring the happiness of Muslim tourists who choose a vacation package.

The rising number of Muslims from other countries who go to Korea is the topic of Kim et al. (2015). Muslims from Malaysia, they say, are more visible as a target brand by Korea than Muslims from China. Japan, the authors say, also has a better reputation for its brands than Korea does. Nonetheless, Korea outperforms Japan when it comes to cultural reach among Muslims, which is a key component of brand image in this case.

Regarding brand loyalty, consumer sentiment, and market awareness, Korea ranked between China and Japan. Furthermore, participants reported feeling more connected to Chinese people than to Koreans residing in Korea. A major takeaway from this study is that Muslim visitors from Malaysia have certain requirements and interests while traveling. The diverse socioeconomic backgrounds of Malaysians are largely responsible for their individualised tastes and requirements.

The purpose of the study by Egresi et al. (2014) is for review how the growth of spiritual tourism affects locally based economy and community. This study concludes that the impact is generally favourable. The survey also indicated that the growth of

religious tourism has resulted in the establishment of a large number of new employments.

Tekin (2014) looks at how Islam views tourists. To probe the connection between Islam and tourism, the author zeroes in on traditionalist Muslim travellers. So, he's on the hunt for the defining characteristics of Islamic travel agencies. Both the tourist sector in Turkey and the tourism industry worldwide are discussed, but the author devotes particular attention to Islamic tourism. According to Tekin, an increasing number of visitors will visit Turkey as the country's tourism industry develops, boosting the country's income. New, suitable, and doable options for tourism, the author argues, can help Turkey further boost its standing as a major tourist destination.

Dilek and Çakmak (2017) surveyed visitors to Kastamonu to learn more about their impressions of Halal tourism. Hotels that offered Halal options but not alcoholic beverages or pork products were found to be more popular among this demographic of travellers. Halal tourism was also shown to be more appealing to politically conservative travellers, according to the survey. Advertising, knowledge, and attitudes are argued by Rahim et.al. (2015) as three elements that affect the views and awareness of Muslim customers who favour Halal cosmetics and personal care goods.

Focus group interviews were used by Kandemir and Gökbeşe (2017) to learn more about the prospects for Halal tourism in Kastamonu. A lack of marketing and promotion was identified as the primary barrier to Halal tourism in the area. Kastamonu is only one of several places in Turkey that welcome Halal tourists, but they do not get much promotion.

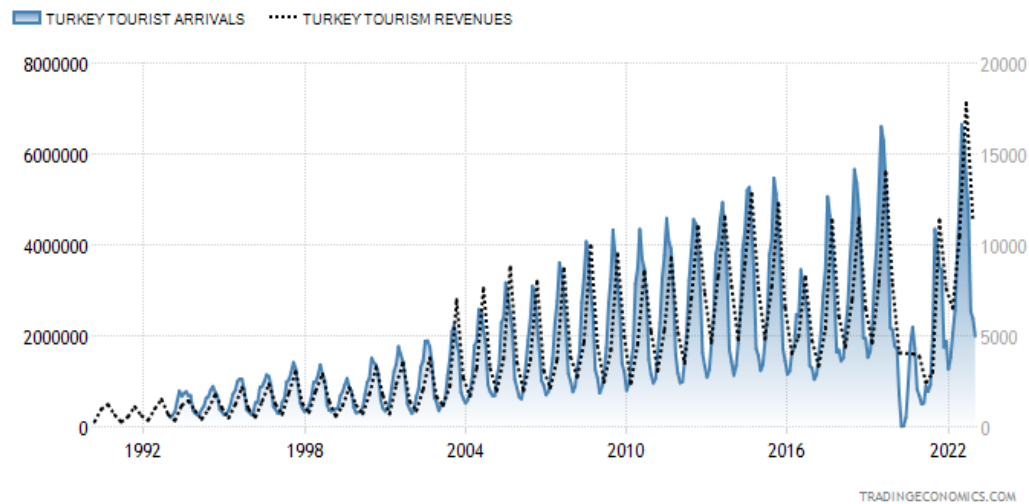
1.3. Structural Features of Turkey's Tourism Industry

One may say that 1983 was a turning point for Turkey's tourist sector. As a result, Turkey has seen a huge influx of visitors and a boom in tourism earnings (Aktaş, 2005). Since 1980, Turkish policymakers have prioritised foreign tourism due to its potential to boost the country's economy (Akkemik, 2012).

Turkey is a popular tourism destination across the world. Figure 1 illustrates that the number of international visitors to Turkey rose from around 8 million in 1996 to almost

36 million in 2015. During this time, tourism brought in a staggering \$25 billion in yearly revenue, a staggering rise from the \$5 billion it was bringing in before.

Even though the number of visitors visiting Turkey rose between 2008 and 2010, the country did not see a corresponding rise in revenue. The decline in the proportion of visitors with high disposable incomes is one factor contributing to this plateau.



Graphic 1: Revenue from International Tourist Arrivals and Spending in Turkey, 1992-2022

Source: (TURKSTAT Tourism Statistics, 2022).

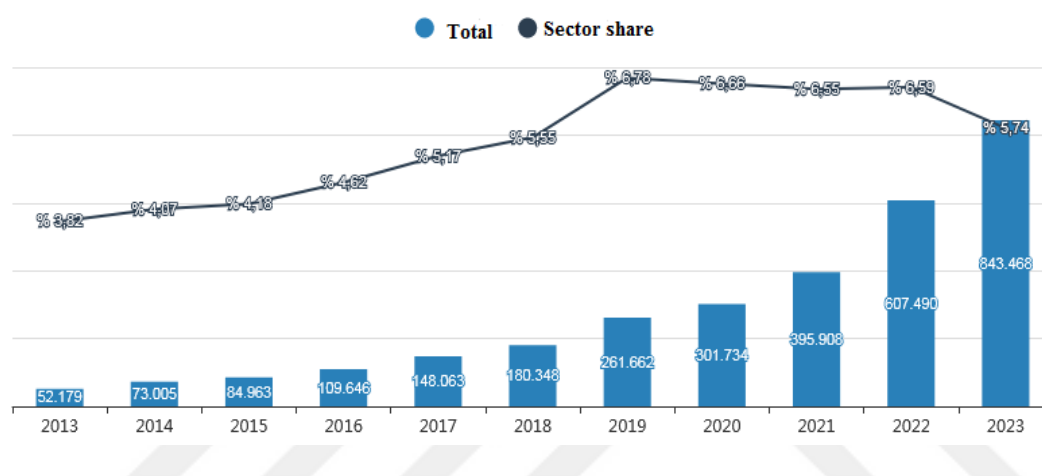
1.4. Islamic Banking in Turkey

The legislation adopted in 1983 allowed Turkey to become home to contemporary Islamic financial institutions. These cutting-edge establishments were referred to as non-public banks or private investment companies. These establishments' primary goal was categorised as facilitating the transfer of funds from nations in the Middle East to Turkey. Albaraka Türk Private Financial Institution first opened for business in 1985. Other Islamic financial organisations formed post-law include the Kuwait Türk Awqaf Financial Institution (1989), the Anadolu Financial Institution (1991), the İhlas Financial Institution (1995), and the Asya Financial Institution (1996).

For a long time now, Turkey has been home to four separate Islamic banks. Because of this, interest-free funding in the nation was hampered for decades. However, the JDP administration is paying close attention to this area. Accordingly, Ziraat Participation

became the first state-owned Islamic bank in May 2015, and Vakf Participation became the second state-owned Islamic bank in February 2016. These changes indicate that Islamic banking's part of the entire industry may rise over time. Since the beginning of 2014, however, Bank Asya has seen an upsurge in bad events. On February 4, 2015, the Savings Deposit Insurance Fund (SDIF) of Turkey assumed control of Bank Asya.

Albaraka Türk Participation Bank, Emlak Participation Bank, Kuveyt Turk Participation Bank Inc., Türkiye Finans Participation Bank, Vakf Participation Bank, and Ziraat Participation Bank are the six Islamic banks operating in Turkey as of this writing.



Graphic 2: Overview of Islamic Banking Sector in Turkey

Source: <https://tkbb.org.tr/page/resources/research-and-reports-395417/> Access Date 04/03/2023

Islamic banks make up around 5% of Turkey's financial industry. This proportion, however, is growing steadily.

There has been a surge in interest in the income of Islamic banks as a subject for academic study. Depending on the study, one or more nations may be used. Islamic bank profitability analyses often employ aggregated data alone. Here is a chronological collection of the most up-to-date studies about the financial gain of Islamic banks.

Profitability of 78 Islamic banks across 25 countries is analysed by Ahmad and Noor (2011) over the years 1992-2009. Bank profitability coefficients are estimated with the use of the Fixed Effect Model (FEM). A closer look at the data suggests that bigger, more diverse, and more financed banks tend to do better financially. The findings also show that credit risk negatively affects Islamic banks' profitability, lending credence to the expenditure preference argument. Additionally, banks that have a greater ratio of

operating expenditures to assets, a higher ratio of equity to assets, and a larger concentration in high income nations tend to be more profitable. The Global Financial Crisis and the Asian Financial Crisis of 1998 of 2008 had little effect on the financial success of Islamic banks.

In context of the era 2006M1-2009M12, Akhtar et al. (2011) look at what influences Pakistan's Islamic banks' bottom lines. Model 1 and Model 2 are both multivariate regressions that were established. Both ROA and ROE are encompassed into as dependent variables in these models. Statistical analysis shows a favourable correlation between gearing and capital sufficiency in both models. Also, in Model 1, positive and statistically significant asset management coefficient and in Model 2, the connection between asset management and capital sufficiency is determined to be highly improbable to be a coincidence.

Using quarterly data from 2005-2010, Macit (2012) analyses socioeconomic and institution-specific factors of participation bank' profitability for the Turkish banking industry. The estimation of models is performed using the pooled feasible generalised least squares approach. Bank profitability may be gauged by calculating ROA and ROE as dependent variables. According to the findings, ROA is positively affected by the ratio of equity to total assets (ETA), positively affected by the ratio of real assets to total assets (LRA), and negatively affected by the ratio of non-performing loans to total loans (NPL). Conversely, ETA and NPL have a negative effect on ROE, whereas LRA has a good effect. Both the real interest rate and the exchange rate have positive and statistically significant impacts on both models when it comes to macroeconomic determinants. The study by Obeidat et al. (2013) analyses the impact of both internal and external factors on the profitability of Islamic banks in Jordan between the years 1997 and 2006. With multiple regressions, it may examine the predictive coefficients of a large number of variables at once. Deposit, total expenditures, cost of deposit, Mudaraba loans, and restricted investment deposits have been confirmed as significant indicators of profitability by empirical research. By contrast, the money supply and market share are two of the most important external variables.

The Malaysian banking industry is analysed by Muda et al. (2013), who look at the factors that affect the profitability of Islamic banks and compare those institutions to

those based in other countries. Unbalanced panel data from 17 banks from 2007Q1 to 2010Q4 are used in a GLS model. The empirical evidence suggests that local banks outperform their international counterparts in terms of profitability. Bank profitability in their country is determined by factors that are vastly different in banks outside. The following factors are significant determinants of domestic banks' ROE: overhead costs (-), loans ratio (+), technical efficiency (+), GDP growth rate (+), and bank size (+). Increases in the host nation's GDP per capita have a considerable, unfavourable effect on the profitability of international banks. Factors like deposits (+), capital and reserves (-), inflation (-), and bank age (-) all have a significant impact on local and foreign banks' ROE (-).

For the Malaysian banking industry between 2005 and 2009, Abduh et al. (2013) analyses internal and external factors' influence on the financial gain of Islamic and conventional banks. There are 13 Islamic banks and 17 traditional banks in the sample. In order to estimate the factors that affect a bank's bottom line, panel data regression analysis is used as an econometric method.

Under the pooled OLS (Ordinary Least Squares) approach, empirical findings point to liquidity ratios and macroeconomic situation as the primary predictors of profitability. However, in the random effect hypothesis, only the liquidity ratio is important. To paraphrase the fixed effect theory, a growing economy is good for Malaysian bank profits. Furthermore, findings show that Islamic banks outperform their conventional counterparts in terms of profitability between 2005 and 2009.

Using quarterly data from 2006-2012, Ali (2015) makes estimates of the macroeconomic factors, such as mortgage rate, currency rate, and percentage of inflation, of the profitability of Islamic banks in Pakistan. OLS, the Johansen-Juselius technique, Profitability is analysed in connection to these three primary macroeconomic factors using the cointegration approach and the Granger causality test. Interest and inflation rates have a positive effect on bank profits, as shown via ordinary least squares regression. Inflation has a unidirectional causal relationship with probability, exchange rates with interest rates, and interest rates with inflation, as shown by Granger causality analysis. Last but not least, a co-integration test shows that the variables are, indeed, long-term cointegration.

Using panel regression, Karakuş and Küçük (2016) examine bank-specific and economy-wide factors and their effects on Turkish banks' profitability from 2010Q1 to 2014Q4. In the panel data study, ROE and ROA were included as explanatory variables. It seems from the data that the effective exchange rate for the US dollar, the CPI, GDP, Both profitability metrics, the ratio of fixed assets to total assets, and their relationships are all inversely connected. It is also shown that when the number of workers grows, the company's financial statistics improve.

The findings also show that the total funds collected to total assets ratio, the unemployment rate, the weighted average interest rate of loans, and the industrial output index all positively affect ROA. The return on equity is negatively affected by the actual sector confidence directory, the rate of unemployment, and utilisation of credit to total assets ratio. Other operational expenditures as a percentage of total assets, off-balance sheet liabilities as a percentage of total assets, and short-term loans as a percentage of total loans utilised are all positively correlated.

1.5. FDI in Turkey

1.5.1. Significance of Turkey as a FDI Destination

The UNCTAD, the World Bank, and The Economist classify Turkey as upper-middle income due to income distribution of USD 8636 in 2020 and its ranking among the 20 largest economies in the world (World Bank, 2021). Turkey has consistently been at the bottom of the worldwide FDI rankings in recent years (UNCTAD, 2020), which can be explained by the fact that it is a large market with a population of over 80 million, that it is strategically located between Europe and Asia, that it is close to Africa, and that it has customs entry into the European Union market.

Over the last two decades, notably during the current phase of accelerated FDI inflows, a substantial body of academic work on FDI in Turkey has grown. Key works in this field investigate the background of foreign direct investment in Turkey (Cambazoglu and Karaalp, 2014; Grigoriadis and Kamaras, 2008), the connection between FDI while economic expansion (Temiz and Gkmen, 2014; Gkmenoglu and Taspinar, 2016), and the factors that determine where FDI is concentrated (Deichmann, Karidis, and Sayek, 2003; Yavan 2010).

Foreign direct investment (FDI) into Turkey expanded when the government passed Law 4875 in 2003 until the attempted coup in 2016 and the subsequent COVID-19 epidemic in 2019 (UNCTAD, 2020). By drastically easing limitations about foreign investment in Turkey, this Act levelled the playing field for both domestic businesses and MNEs. In addition, throughout the subsequent 15 years, outbound FDI surged as Turkey's economy expanded consistently (Yavan, 2011; Kılçaslan, et al., 2019).

Foreign direct investment (FDI) outflows from Turkey are frequently seen as a wasted opportunity to boost the economy. However, FDI is credited with helping Turkey get access to new information and passing cost savings to Turkish firms, hence boosting their competitiveness (Kılçaslan et al., 2019). In their 2018 paper "The Costs and Benefits of Outward FDI," Paul and Benito provide a thorough review of the relevant literature from the viewpoint of the nation of origin.

1.5.2. Government Policy and FDI

Peter Dicken's (2015) *Global Shift* outlines the many ways in which host governments may influence the inflow and growth of foreign direct investment. Governments often use investment agencies to advertise and promote investment possibilities. These agencies frequently provide incentives and have the ability to outbid competing destinations. In addition to regularly capping the level of ownership and screening FDI proposals, agencies also prohibit some economically sensitive industries. Geographical restrictions, export restrictions, requirements for technology transfer, and local management and content rules are possible additional restrictions. As a last point, host governments are sometimes engaged in financial activities including taxes and the enforcement of remittance limitations. Of course, running such organisations is expensive, thus they've been criticised by academics like Mallya, Kukulka, and Jensen (2004). These critics point up problems like misallocated funds, vicious campaigning that dilutes any beneficial results, and even the compromising of local laws.

Foreign direct investment (FDI) inflows may also be affected by the public's opinion and the government's policy at large. Thomsen and Mistura (2017) utilise datum from 1997 Brazilian, 1998 Korean, 1985 Vietnamese, and 1997 Philippine FDI reforms to demonstrate that openness changes have an immediate and substantial effect on FDI inflows. Still among the most limited is the Philippines. Since 1997, the Republic of

Turkey has benefited from some of the world's most effective liberalisation programmes, the results of which are graphically shown in Figure 2; the authors underline this fact. Turkey's inflows would grow by 60% if it raised the quality that its government to that of Britain's, according to models by Alfaro, Kalemli-Ozcan, and Volosovych (2008).

Relationships among foreign direct investment (FDI) flows and global commerce are the subject of more study. To what extent these two types of international production compete with one another is a matter of heated discussion amongst academics. Canadian data gathered by Meredith and Maki (1992) supports the idea that the presence of US-based MNEs strengthens trade ties. Aizenman and Noy (2006) use regression and a two-way feedback analysis on data from 1982 to 1998 covering a sample of 21 developed and 60 developing countries to establish that FDI and trade are complementary to one another. The most convincing evidence, they argue, might be found in developing nations with more open trade regimes and in emerging markets where the majority of FDI is vertical. A surge in protectionism against both foreign direct investment (FDI) and trade has occurred despite calls for more open policies (Aizenman and Noy, 2006).

Indirectly, they say, governments' efforts to make them selves less vulnerable to trade and FDI partnerships with foreign corporations also contributed to the decline in FDI flows. Voters' attitudes in democracies often encourage protectionist rhetoric. A study published by the OECD in 2017 draws attention to this trend and says that protectionism may be to blame for a prolonged decline in FDI throughout the world. With the beginning of COVID-19 damaging the 2020 global economy, the pandemic-related withdrawal of critical FDI projects has the potential to escalate protectionism (UNCTAD, 2021) significantly.

Statutory laws regulating FDI have tended to grow more permissive over time, notwithstanding the rise of protectionist sentiment. In Figure 2, we see how Turkey's degree of protectionism compares to that of various FDI rivals meantime the last two centuries, with the OECD average (OAVG) serving as a point of comparison. Limitations on key foreign people, as well as operational and foreign equity restrictions, form the basis of the index. When compared to other OECD countries, Turkey's

restrictiveness scores are quite average, and they are far lower than those of Vietnam and the Philippines, who have just lately become more liberal.

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

Government policy typically goes to considerable lengths to encourage investment possibilities overseas due to the widespread belief that FDI is a driver of economic growth (Deichmann, 2010; WAIPA, 2021). Foreign direct investment (FDI) may assist nations by boosting the productivity of indigenous enterprises via the transfer of money, technology, and expertise (Javorcik, 2004; Pavlinek, 2017). Whether the commonly expected aims of capital accumulation and transfers of technology, know-how, and management experience are really realised relies on numerous aspects, includes indicators of the country of origin, the site itself, and manner of entrance. These factors are reminiscent of Dunning's (1980, 1988) eclectic "O-L-I" model of FDI. Using this approach, we may better understand the causes and effects of foreign direct investment (FDI) throughout the world. The academic literature on the effects of FDI emphasises the significance of entrance strategy and other distinguishing features of the company (Pavlinek 2004; Javorcik 2004; Pavlinek, 2017), as well as the location chosen by the firm (Yavan, 2011; Pavlinek, 2017).

Academics have compiled a sizable body of work on the topic of foreign direct investment and economic expansion. By analysing a large database of nations over a twenty year period (from 1970-1990), the theoretical literature is supplemented by DeMello's (1999) novel empirical research on FDI-led development. His argument that the growth consequences of FDI are "less disputed in theory than in reality" is an example of the difficulty in seeing country-specific aspects like analysis of institutional change, trade patterns, political uncertainty, and government action over the course of decades. He notes that technology disparities between trading partners seem to have an adverse relationship with the expansionary impacts of FDI. He also contends that

developing nations may have trouble reaping the benefits of technological advancements since they are lagging behind developed nations. Potential improvements are likewise minimal in situations when the sending and receiving nations have equal levels of technology.

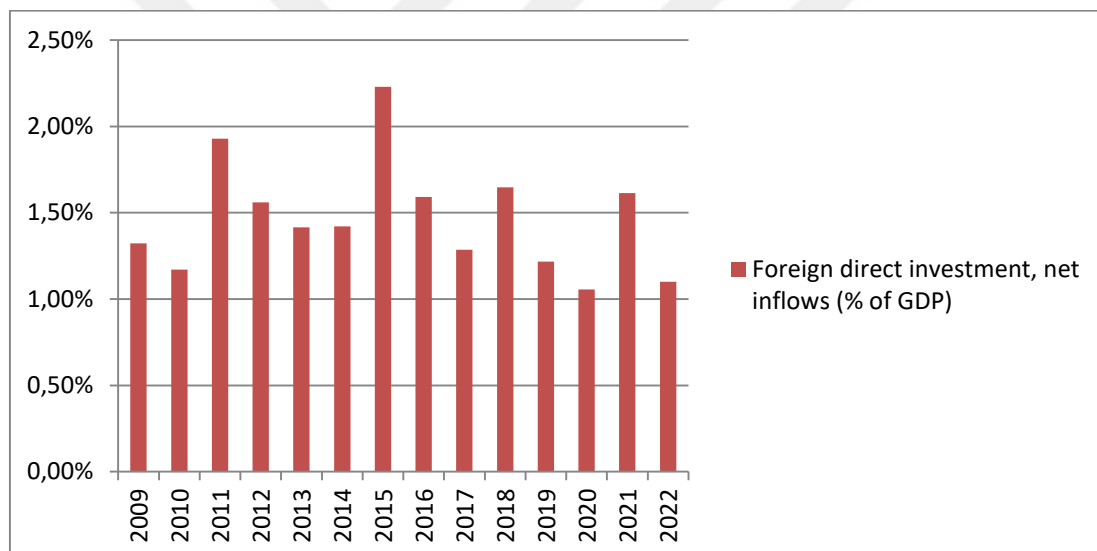
It is a simple task to provide counterexamples of how FDI has harmed the host country, and this may make the available data seem confusing. When determining cause and effect, the surrounding circumstances are typically crucial². In their reviews, Almfraji and Almsafir (2014) and Baldi and Miethe (2015) summarise the most important practical effects that have been made about the link between foreign direct investment and growth in the economy, which may be either strongly positive or negatively correlated. Yet other research has shown both not supporting (Khaliq and Noy, 2007) or just slender indications (DeMello, 1999) of a connection between the two.

Evidence from a broad number of nations during the period 1970-1990 supports the hypothesis that FDI boosts economic development in some but not all instances. Further, both Almfraji and Almsafir (2014) and Pavlinek (2017) indicate such the growth-promoting effects of FDI are generally location- and industry-specific, rather than generalised via spill overs.

Researchers Temiz and Gökmen (2014) in Turkey discovered neither a short-term nor a long-term correlation across the inflow of foreign direct investment and GDP growth between 1992 and 2007. This window encompasses the introduction of Turkey's FDI Law Number 4875 in 2003 and runs from before the Global Financial Crisis of 2008 to before the COVID-19 pandemic. The authors assume that FDI plays a crucial role in fostering economic development in Turkey on the basis of a thorough examination of the literature demonstrating causal links in other situations. They come to the conclusion that Turkish champions were too optimistic about the positive effects of foreign investment and infer that this is due to the manner of entrance by MNEs, which is predominantly represented by mergers and acquisitions.

Gökmenoğlu and Taspınar (2016) use data from 1974-2010 for Turkey to analyse the connection between CO₂ emissions, energy consumption, economic development, and foreign direct investment. The Toda-Yamamoto test is used to verify that all variables, with the exception of FDI, have a two-way causal connection. In the case of Turkey,

they also confirm the validity of the pollution haven theories, since economic development and energy use both bring in FDI. In other words, the authors state that there is empirical data to show that countries such as Turkey, with lesser ecological regulations, attract FDI from polluting industries, at the expense of guest nation. Carbonell and Werner (2018) supply a critical analysis of FDI's effect regarding advancement, following in the footsteps of Mallya et al. (2004) and Drahokoupil (2008). Using Spain as an example, the eighth biggest receiver of FDI worldwide, the authors discover that credit-driven economic development was accompanied by FDI's potential worsening of the country's economic problem. They claim it would be more effective to divert government funds away from FDI promotion. In their last section, Carbonell and Werner extol the virtues of autarky, praising Japan's development in the 20th century as an example.



Graphic 3: Cumulative FDI in Turkey as a Percentage of GDP, 2009-2022

Source: <https://www.oecd.org/> Access Date 22/12/2022

It is crucial to learn more about the relationship between foreign direct investment and economic development in Turkey in light of the critical and frequently contradictory views on the impacts of FDI. Figure 3 displays the average share of GDP contributed by FDI in Turkey from 2005-2019. (OECD, 2022). Turkey's government is paying close attention to foreign direct investment (FDI) because of the significant impact it has on the country's economy.

DeMello (1999), Alfaro and Charlton (2007), and Baldi and Miethe (2015) argue that FDI may stimulate economic development, this is not always the case. Ford, Ford et al. (2008) state that the growth impacts of FDI might sometimes be conditional on the nation of origin of the MNE. From 1978 to 1997, Germany, Switzerland, the Netherlands, Japan, the United Kingdom, Canada, and France from 1978 to 1997, were among the top ten nations from which FDI entered the United States. Following this, they check out the impact of both international and local enterprises on growth on a state level. Only two states, they say, profit more from overseas enterprises than local ones: Massachusetts and Maryland. Among the nations studied, they find that Japanese FDI has the greatest beneficial overall growth impact. They recommend breaking down the dependent variable by place of origin and industry for future studies.

These results are helpful for Invest in Turkey, a government organisation tasked with courting multinational corporations (MNCs) from a select group of nations. Invest in Turkey takes calculated choices on where abroad to keep its investment offices. The list will expand to include the United Kingdom, Spain, the United Arab Emirates, South Korea, Singapore, the United States, and Germany in 2021. FDI's contribution to Turkey's GDP has been around 15% annually on average since 2005, making it crucial to attract the correct kind of FDI from reliable sources (see Figure 3).

Foreign direct investment's potential is worth assessing both in terms of the economy as a whole and in terms of individual companies. According to Alfaro and Chauvin (2020), local enterprises may benefit from FDI via backward and forward linkages, and they can gain entry to worldwide marketplaces and systems of production. DeMello (1999) conceives which knowledge and technology transfer to local enterprises is possible when synergy between international and indigenous firms is established. Time series data from 1970 to 1990 in the form of panels provide the basis for the authors' conclusions.

Using firm-level data from a range of Lithuanian industrial sectors, Javorcik (2004) provides proof that partnership FDI results in beneficial efficiency spill overs to local enterprises. She found that local enterprises that provide FDI had a 15% increase in production for every one standard deviation increase in FDI. Notably, the beneficial

spill overs she observes in joint ventures do not apply to international enterprises in which foreign investors have a majority stake.

According to Javorcik and Spatareanu (2011), the distance between the country of origin and the country of destination, as well as the (lack of) preferential trade agreements, all have an impact on the kind of investment made. The research relies on panel data from American and European Union companies doing business in Romania. Whether or whether there are beneficial downstream spill overs depends, in turn, on the sort of investment. Because these MNEs must get more local inputs from Romania due to their geographic distance from home, writers take a stance that American foreign direct investment (FDI) leads to larger knowledge and technology advantages. Furthermore, the EU's association agreement with Romania encourages this pattern by providing preferential tariff treatment to companies domiciled in the EU rather than in North America. Even before Romania joined the EU in 2007, the proximity of home-based inputs was a barrier for EU-based businesses to create locally sourced inputs in the country.

In this article, Pavlinek (2004) analyses both the former joint venture between Volkswagen of Germany and Koda of the Czech Republic and the automobile industry has seen a rise in foreign direct investment (FDI) from Central Europe (Pavlinek, 2017). He shows how foreign direct investment was important in the rescue and modernization of a privatised enterprise that seemed set to fail when central planning collapsed. Pavlinek, in his 2004 research, details the acquisition's benefits while warning against placing too much stock in foreign direct investment's (FDI) positive impacts on development. He urges a critical evaluation of FDI's potential advantages and stresses that multinational corporations are motivated only by profit and have little to no commitment to the country in which they operate. He agrees that the substantial investment by Volkswagen in the Czech Republic has resulted in positive productivity spill overs and, at the very least, technological turnovers.

Later on, Pavlinek presents a "classification of spill overs" that may be thought of as the results of FDI (Pavlinek, 2017). He expands his research to include all of Central and Eastern Europe, where he finds even more evidence of the mobility of MNCs in the midst of the 2008-2009 economic meltdown. The author provides indicators of the

repercussions in the form of job losses and company failures from survey data. In light of potential currency volatility and local wage hikes, he advises avoiding over-reliance on a single overseas enterprise. However, he makes it clear that FDI may be a useful tool in development strategy provided it is managed properly.

The variable nature of FDI's impact on GDP growth may account for the discrepancies in the studies. When foreign direct investment is well planned, sited, and managed, it benefits both the host country and its businesses (Alfaro and Charlton 2020). Government-run investment organisations like Turkey's Invest in Turkey are authorised and obligated to prioritise initiatives that advance the welfare of their home countries' communities and economies. They may also choose not to pursue or even outright ban endeavours that would be to their damage. The Czech government's investment promotion and assistance agency, Czechinvest, is a great example of a country that has been able to successfully encourage FDI while also mitigating the potential negative effects of foreign ownership.

Skepticism regarding inbound FDI has been fuelled by a number of factors, including the growth of nationalism in many nations and evidence that foreign corporations sometimes operate against the interests of host society or simply quit projects. The Great Recession of 2008 is a prime example of this, since it resulted in the loss of billions of dollars in foreign direct investment and the subsequent loss of millions of jobs. Without a doubt, MNEs' severing of local ties provoked negative feelings in the host population and provided cover for anti-immigrant sentiment.

1.6. Literature on the Impact of FDI and Tourism on Bank Profitability

Many studies have been conducted to check the effect of FDI on the economic growth of a country as well as the effect on the banks. Many studies have focused on tourism as well in the past and the effect it has on the growth of the nation as well as the profitability of the banks. This section focuses on these particular studies that have been done in this field and the importance of these studies.

Fauzel and Seetanah (2006) has conducted a study seeks to answer the crucial issue of whether or not FDI into the tourist industry over the period 1984–2014 contributed to the country's economic development. The findings demonstrate that FDI in the tourist

industry has certainly supported economic development, but at a comparatively lower scale than FDI in non-tourism sectors and taking dynamism into account by using a dynamic vector error correction model. Such a conclusion could have a logical explanation in the fact that domestic investment in Mauritius is disproportionately concentrated in the tourist sector, whereas the majority of FDI flows to non-tourism industries.

Mahapatra, and Nayak (2019) undertook a research to evaluate the effects of foreign direct investment over a thirteen-year period, from 2004–2005 to 2016–2017, analyses the efficiency and profitability of a number of different Indian banks, both public and private. This study is mostly an analytical and descriptive one, based on secondary sources of information. The secondary data was compiled using a wide variety of sources, such as academic journals, papers, run-batted magazines, Ministry of Finance publications, Department of Commercial Policy & Magazines, and internet information concerning FDI.

Averages, percentages, tables, graphs, and sketches, among other statistical tools, have been used to assess the data where applicable. The influence of FDI on Indian banks has also been studied using multivariate regression analysis (MANOVA). The research concludes that FDI has a significant impact on the banking sector, and that it should be encouraged and fostered for the sake of the expansion and improvement of the banking sector in India and the country's economy as a whole.

Foreign Direct Investment and the tourism industry are two key variables that both directly and indirectly contribute to growth, as well as the demand for foreign currency in the developing world, according to a research by Hayali and Kpartor (2021). Using the Granger causality test, the study attempts to ascertain if there is a connection between FDI and the tourist industry in the context of the Jamaican instance. The findings of the econometric research reveal a causal relationship between tourism expenditures and FDI inflows, with the Granger causality in the Jamaican case going in a single direction from FDI inflows to tourism expenditures. In other words, FDI inflows in Jamaica are the cause, and the predicted outcome of tourist spending is what it is. The development of both concrete assets, like infrastructure, and intangible assets, like managerial skills, of a nation, as a result of FDI inflows, including FDI in the

tourist industry especially, adds to the development of the tourism sector as a service sector.

Musah, Gakpetor, Kyei, and Akomeah (2018) expand the literature on FDI's effects on Ghana's economic development to include FDI's effects on the performance of commercial banks in Ghana. The research employed secondary data on FDI and macroeconomic factors from the World Bank's statistics on nations while pulling financing information from commercial banks' annual reports over a ten-year period. Regression analysis and correlation results show that FDI inflows significantly and favourably affect the profitability of Ghana's commercial banks. Additionally, findings indicated that both short- and long-term FDI is favourably related with and statistically significant with economic growth. The paper suggests doing a comprehensive examination into the issue by focusing on specific inflows of foreign direct investment to the financial sector and performance of banks to ascertain the exact impact of FDI upon economic growth. The research recommends that the government increase its efforts to attract more FDI to the nation.

Using data from 17,077 banks in 85 tourist economies between 1995 and 2016, Saif-Alyousfi and Saha (2021) performed a research to examine the effect of international tourism revenues on bank profitability and, therefore, financial stability. The tourist revenues are obtained via both direct and indirect routes and this research employs two-step system dynamic generalised method of moment's estimator methodologies to find that they negatively affect earnings for banks. The most detrimental effects on profitability are seen in developing and low-income nations. The effect on banks is most detrimental in European nations, whereas it is less in the United States. Banks that deal with commercial and savings accounts are most negatively impacted by tourism. The study's results highlight the need for budgetary restraint in nations where tourism contributes significantly to national income. The negative effects of COVID-19 on the flow of tourist money are anticipated to have an impact on bank profitability and the country's capacity to maintain its finances. As a result, it is very important to policy makers all over the globe.

In research he did Moaveni (2014) notes that in recent years, the tourism sector has emerged as one of Turkey's essential and most important economic sectors. Turkey's

impressive ranking of sixth in the world according to Tourism Organization Statistics is a result of the country's strong economic and tourism-related bilateral connection. The five major Turkish travel businesses were used in The purpose of this research is to determine how internal, external, and macroeconomic variables on the profitability of the tourism sector from 1998 to 2011. Findings from the regression analysis suggest that internal elements are more strongly linked to profitability than any of the other variables included. The ratio of equity to total assets and the logarithm of size have substantial effects on the profitability ratios return to an average asset (ROAA) and return on typical equity (ROAE). It may be argued that the tourism industry's financial performance and profitability are relatively immune to macroeconomic concerns.

1.7. Islamic Banks and Conventional Banks

This research will focus into 6 banks and divide the same into three Islamic Banks and three Conventional Banks. We will use the data from these banks in the further chapters to make our analysis in the research. This helps us to understand and make a clear demarcation on the two types and understanding the profitability of these two categories of banks. The three Islamic banks that we are going into depth in this chapter are Kuveyt Turk, Albadraka Turk and Turkiye Finans. Following is the about us section and a lit bit of literature on these banks to give us a better understanding of these three banks.

In a short period of time, the gathered finances, volume of work, and project capabilities of the Special Finance houses selected by the Turkish society demonstrated fast progress. Organizations in the financial sector include:

In May 2006, the company rebranded itself as Kuveyt Türk Participation Bank Inc. from its previous incarnation as Kuveyt Türk Evkaf Finance Institution Inc. (The History of Kuveyt Türk, 2010).

The three Conventional banks that we are going into depth in this chapter are Ziraat Bank, Is Bank and Garanti Bank. Following is the about us section and a lit bit of literature on these banks to give us a better understanding of these three banks.

With approximately 2,000 locations and 7,000 automated teller machines (ATMs), Ziraat Bank is one of the biggest and oldest banks in Turkey. Ziraat Bank, as part of its

digital transformation, prioritised reaching out to young professionals and millennials in particular. This expanding customer base prefers non-traditional banking options including digital and mobile interactions. The bank might reduce its cost to serve and its cost of KYC by catering to this market's preference for digital banking services.

In addition to keeping up with worldwide trends showing a rise in mobile wallet use, the bank took into consideration the shift in client behaviour, which is away from using plastic and toward using digital payment methods. The bank saw the introduction of its newest product, a credit card that doubles as a debit card, as a perfect chance to introduce its cutting-edge payment and digital credit card solution. The intended result was a unified and hassle-free mobile user experience for a novel card product.

Founded as the first national bank of the Republic of Turkey, İş bank is approaching its centennial anniversary in 2024 as one of the country's most visible economic players, having contributed to Turkey's economic growth throughout its history. İş bank's corporate, commercial; SME, retail, and private banking services are the best in Turkey. Approximately 19.5 million clients will be served by İş bank's 24,053 workers by the end of 2019. With TL 468.1 billion in assets as of the end of 2019, İş bank is the biggest private bank in Turkey. İş bank has the most domestic branches (1,249) and the most ATMs (6,506) in the sector. It is a private bank.

İş bank is a forward-looking, nimble company thanks to its cutting-edge technological prowess and forward-thinking strategy. Through its vast service network and digital platforms, İş bank touches the lives of its millions of clients, continually contributes to their welfare, and generates lasting value for its stakeholders.

İş bank, one of Turkey's most esteemed financial organisations, approaches all of its strategic planning and operational procedures with an eye toward the future. The Bank refers to its very effective business approach, which prioritises creating value that can be shared, as "İş bank Banking." İş bank's commitment to the environment is based on its "Banking" model. İş bank Banking is a business concept that integrates financial and non-financial capital aspects to generate "shareable and sustainable value." With this solid business strategy, İş bank hopes to benefit all of its constituents in the near and far futures. This value creation model exemplifies the Bank's sustainability idea and the incorporation of sustainability into business operations; it is known as "İşbank Banking"

and enables integration of the Bank's sustainability objectives into all decision making processes.

Established in 1946 in Ankara, Turkey, Garanti Bank is the country's number two private bank by consolidated assets as of 31 March 2022, at about 953 billion Turkish Liras. Since 2010, the cooperation between Garanti and its primary shareholder BBVA has boosted the Turkish economy. Since June of this year (2019), customers have been able to interact with the bank under the Garanti BBVA brand.

Garanti BBVA operates in a wide variety of banking sectors, including corporate, commercial, SME, individual, private, retail, and investment. Financial services such as life insurance and individual pension, financial leasing, factoring, investment, and portfolio management are offered through the company's foreign subsidiaries in the Netherlands and Romania.

As of 31 March 2022, it has 869 domestic branches, 1 representative in each Dusseldorf and Shanghai, and 8 overseas branches, 7 in Cyprus and 1 in Malta, to meet the diverse financial demands of its 20,787,625 consumers. All of its 5,397 automated teller machines, award-winning call centre, internet, mobile, and social banking platforms, and other cutting-edge technical components work together seamlessly to provide customers with a seamless experience across all channels.

In a review of tourism-related research, it becomes clear that few studies have looked at the factors that directly impact profitability. Here are a few examples of research that looks at the factors that influence business profitability and the capital structure choices made by companies across a wide range of industries and nations:

The goal of this study is to identify the critical success factors for Turkish retail firms, Kültür and Demirgüneş (2006), analysed data from 1997 to 2006 for retailers whose share certificates are traded on the Istanbul Stock Exchange. The authors then proposed a series of recommendations to these retailers with the goal of increasing their profitability.

Financial variables impacting the profitability structures of businesses operating in the IMKB industrial and service sectors in 2004–2006 were the focus of a research conducted by Albayrak and Akbulut (2008). They looked into the relations between the return on equity and the turnover rate, capital structure, and market value signals

variables—all of which are crucial factors in establishing a company's return on equity, and discovered that ROE is positively correlated with turnover rate, business size, and market value indicators, and negatively correlated with capital structure variables.

Research conducted by Kandır et al. (2007) on the Turkish Republic's Central Bank's Sector Financial Statements found a correlation between rising tourist revenue to dividend ratios and rising hotel occupancy rates, as well as improved financial performance for Turkey's tourism industry. There is a positive correlation between the occupancy rates of Turkish tourism businesses and their financial performance as measured by return on investment, return on equity, and profitability of sales; however, there is a negative correlation between these three performance criteria and the proportion of tourism revenues in the national dividend.

Using data from the financial statements and income tables of 22 companies registered at IMKB spanning 6 years, Kabakçı (2008) analyses the link between profitability, capital structure composition, and performance in order to draw conclusions about how one influences the other. The investigation revealed an inverse connection between the company's value and equity return. It follows that firms are more likely to achieve high levels of profitability when their debt to equity ratios are low.

1.8. Interactions between Economic Growth, FDI and Islamic Banking Development in Turkey

The primary objective of Islamic financial institutions is to promote economic progress and social well-being. In order to play a more significant role than conventional banks in bolstering regional economies, Islamic banks must avoid mimicking their practises and goals (Abduh & Chowdhury, 2012). Abduh and Omar (2012) discovered a significant link between the expansion of Islamic financial markets and long-term economic growth. It's not a supply-leading connection as Schumpeter predicted, and it's not a demand-following one like Robinson predicted. This interaction seems to be mutually beneficial.

Goldsmith (1955) goes into further depth on the antecedent parts of an examination of economic growth and other crucial indicators like financial intermediary institutions. Using data from 35 countries between 1860 and 1963, he calculated asset-to-growth-

ratio in financial mediation and discovered a correlation between Growth in Gross Domestic Product and the Improvement of the Financial System. He also discovered that the financial structure of a country's economy acts as a catalyst for gross domestic product and helps boost economic development.

Yusof and Bahlous (2013) looked at the impact of Islamic financial institutions on GDP span of time: 2000-2009, uncovering advantages both present and in the future. The end outcome bolsters Islamic banking principles by providing a reliable pathway for productive resources to feed into GDP. This paper's results corroborate theirs, suggesting that a growing economy is beneficial to Islamic banking participation funds.

Al-Oqool, Okab, and Bashayreh (2014) found that Jordan Islamic Bank had a long-term positive impact on the country's economy and society. They found a long-term, bidirectional granger causality between expansion in the Jordanian economy and the amount of money financed by Islamic banks there. This acute liquidity difficulty is shown in the seemingly unidirectional link between economic development and total Jordanian Islamic time and saving deposits. Because of the time lag between the two, studying the impact of Islamic banking on Jordan's economy isn't all that important.

In their 2009 article, "The Role of Islamic Bank Financing in Malaysia," Furqani and Mulyany analysed the contribution of Islamic banks to the country's GDP, GDP per capita, real fixed investment, and trade. They established causality between these variables. Results show that in the short term, Islamic banks do better because of investment granger, but in the long run, there seems to be a causation link between IBD and fixed investment that works both ways.

Kahf, Ahmed, and Homoud (1998) argue that the commodity and products exchange are an integral part of Islamic banking. Furthermore, the transaction in the goods and services market, whether it is conducted via leasing agreements or share sale, is limited by Islamic banking.

This establishes a link between Islamic banking and actual purchases. Similarly, Sharing modes are relevant for creative entrepreneurs who have real-world businesses, since they may be used to generate a gain that may be split apart between the company owner and an Islamic financial organisation. In this context, the terms "real" and "tangible" refer to an actual and physical transfer of products from one party to another,

whereby money is raised via the actual sale of things. In a similar fashion to leasing, where the goods being leased are the primary building blocks on which the financing rests, this method works.

Dusuki and Abozaid (2007) emphasised the need of Islamic financial institutions that use an equity-based financing system to achieve Islamic socio-economic goals such as stability, social justice, economic development, and efficiency.

According to Çetin (2014), a bank's primary purpose is to accept deposits from consumers and businesses and then lend out that money to meet the needs of those customers and those businesses. Deposits from individuals and businesses are the lifeblood of Islamic banks, which in turn finance the expansion of businesses via means like financing manufacturing facilities.

Islamic banks do not engage in interest-bearing or risk-and-loss-sharing lending practises. And he said that from 2003 to 2013, deposits in Turkey's Islamic banks increased at an unprecedented rate. As a result of globalisation and the worldwide financial crisis, both Islamic and conventional banks are feeling the effects of systemic risk in the banking sector. Additionally, he extracted the data as quarterly from 2005 to 2013, discovering a unidirectional correlation between Islamic bank deposits and quarterly Libor rates and a significant influence of the first lag value of Turkish participating banks' deposits on the latter.

Initiating economic development, investments, and savings, the Malaysian government built a powerful financial system. While there are still constraints and prohibitions, the government has made another big political step by working to increase the standardisation, innovation, and regulation of Islamic banking. There was not enough public backing for Islamic banking in Malaysia. The government of Malaysia has a responsibility to educate its people about Islamic banking and allay their fears about it (Khan & Bhatti, 2008).

Islamic Mutual Funds are a popular investment product in the Qatar capital market, and Qatar Islamic Bank is the principal sponsor of Mutual Funds in Qatar. Further, the Doha Securities Market continues to operate its secondary and Islamic capital markets. It continues to play a crucial part in advancing Islamic finance on both the national and international stages. Since the beginning of this decade, Qatar's economy has benefited

greatly from the sale of petroleum, making it the wealthiest nation in the Middle East despite its relatively modest size. The government of Qatar places a high priority on carrying out development projects and infrastructure. To put this concept into action and set off a chain reaction of economic development in Qatar, Islamic banking plays a pivotal role (Khan & Bhatti, 2008).

1.9. Review of Relevant Theory

1.9.1. Foreign Direct Investment Theory

Paul and Feliciano-Cestero (2021) have provided a useful summary of the extensive academic literature on the theory of FDI. For the time being, we need just highlight a few of significant contributions. John Dunning, in his ground breaking work (1980, 1988), developed an eclectic framework that analyses foreign direct investment (FDI) based on three factors: country of origin, geographic location, and degree of internalisation.

When thinking about Turkey as a potential foreign direct investment (FDI) recipient and beneficiary of good spinoffs, it is important to keep in mind all three of Dunning's factors. Using Dunning's framework, we focus on how the origin of multinational enterprises (MNEs), the scale and type of their production and details on the trip's destination and its location (mainly Turkey) affect the likelihood of spillovers.

Dunning (1980, 1988) argues that multinational corporations (MNCs) are enabled by home country features and nature of the company and the pressures to particular areas in pursuit of resources, markets, efficiency, or strategic assets.

Succinctly, the work of scholars like Dunning (1980, 1988, 1998), Yavan (2010), and Dicken (2015) on production structure and market defects may be summed up. Many factors, including but not limited to market size and growth, the likelihood of accumulation (ancillary collaborations and following the leader), work elements (including wages and skills), commodity accessibility, capital supply, infrastructure for transportation, political and economic stability, corruption openness, and host government policy, are often cited as causes of foreign direct investment (FDI) flows. There is no one right solution, and many of the suggested explanations include connections between the MNE's home country and its host country (via shared cultural

traits or geographical closeness, for example). Also, many ideas are applicable at a variety of spatial levels, from the country-wide (Dicken, 2015) to the regional (Deichmann et al., 2003; Yavan, 2010). Barriers or restraints to FDI are the aforementioned traits that may discourage decision-makers from investing money in a foreign setting. Examples include political instability and currency and interest rate volatility.

1.9.2. Resource-Based View (RBV)

"Differential company performance is essentially due to variation between companies instead of sector architecture" (Dyer & Singh, 1998), according to the RBV hypothesis. The hypothesis is built on the suppositions that a corporation's resources are not fungible and are instead dispersed unevenly throughout the organisation. When organisations are heterogeneous, their strategic goals diverge, whereas when they are immobile, no two of their structures share the same data or have their resources dispersed in the same way. In addition, for a company to maintain a competitive advantage over the long term, its resources need to be valued, uncommon, imperfectly imitable, and easily replaced (Barney, 1991). Because of the key role that resources play in the success of Islamic banks, this framework was used for this analysis.

1.9.3. Transaction Cost Theory (TCT)

Ronald Coase and Oliver E. Williamson are credited with developing the concept of transaction cost theory (TCT), often known as transaction cost economics and transaction cost analysis. Williamson (2007) argues that TCT is more cross-disciplinary and focused on reducing transaction costs.

Leuschner, Rogers, and Charvet (2013) define transaction costs as "the expenses incurred in determining Proper market pricing, haggling, and conducting economic transactions." This theory is shedding light on two important issues: (i) why businesses are founded, and (ii) how businesses are managed and structured. Transaction costs are being incurred, they said, because of information, communication, and coordination. This theory also states that there are human and environmental factors, information problems, and monetary and monetary costs associated with transactions.

Search and information costs, negotiating costs, and policing and enforcement costs are the three types of transaction costs identified by Banker (2011), each of which was first proposed by Ronald Coase. Whenever there is a cost associated with a business transaction, expenses have accrued. Many businesses have tried to streamline their operations in order to cut down on transaction expenses (Muller & Aust, 2011).

1.10. Literature Review of Variables

1.10.1. Independent Variables

1) Foreign Direct Investment

In a nutshell, globalisation is the driving factor behind the interconnectedness of national economies (Velde, 2006). The growth of the economy benefits from this as well (Iqbal et al., 2014). The stock and flow of foreign direct investment have both increased dramatically as a result of globalisation (Hill & McKaig, 2015). FDI is "foreign direct investment entails a company from a source country buying or constructing assets in a host country." as described by Hill and McKaig (2015).

Foreign direct investment (FDI) is good for the economy of both the investor and the recipient country (Büthe & Milner, 2008). Additionally, foreign direct investment (FDI) helps bridge the gap in technology, provide highly trained workers, and improve overall management (Masron et al., 2012). Therefore, FDI helps host nations create jobs, boost GDP, upgrade infrastructure, encourage healthy competition, and boost productivity (Edrak et al., 2014). Foreign direct investment (FDI) aids developing nations' economic growth, as both Yucel (2014) and Yildirim and Tosuner (2014) found.

The effects of various forms of FDI on host nations' economy vary. Foreign direct investment (FDI) may take either a "greenfield" or "brownfield" form. According to Chen et al. (2010), foreign direct investment may take two forms: greenfield FDI, in which new facilities are established in the host country, and brownfield FDI, in which existing businesses in the host country are merged with or acquired (M&A). Both forms of FDI are beneficial to the economy of their host nations. Increases in capital stock, employment, and outputs are facilitated by greenfield FDI, whereas productivity gains are made via brownfield investment (Chen et al., 2010). Foreign direct investment (FDI) has been broken down in various ways by various academics who prioritise efficiency;

(Masron et al., 2012). The subgroups of FDI that combined provide a fuller picture is natural resource looking for, marketplace seeking, productivity, and strategic resource seeking (Chen et al., 2010).

The influx of foreign direct investment (FDI) into a nation may be affected by a variety of variables. Politics, say Büthe and Milner (2008), is the primary determinant in determining the direction of FDI flows. First of all, since they are aware of the benefits of FDI, many policymakers and governments in developing countries are working to promote more FDI to enter their country (Masron et al., 2012).

How much foreign direct investment (FDI) a nation gets is affected by its economic development level. Most foreign direct investment (FDI) goes to advanced economies, according Chen et al. (2010). Potential economic growth, political stability, democracy, trade agreements, and the degree of economic liberalisation are some of the other characteristics that determine the quantity of inbound FDI (Büthe & Milner, 2008).

Foreign direct investment (FDI) flows are bolstered when certain conditions are met. Even more so, Büthe and Milner (2008) found that international organisations like the WTO help to encourage FDI in poor nations. Finally, the quantity of foreign direct investment (FDI) will be affected by factors such as the quality of the workforce, especially the average level of education (Lin, 2011; Yildirim & Tosuner, 2014).

2) Tourism

The importance of tourism to many nations' economies has grown during the last decade. Goal 8 on decent employment and economic progress, Goal 12 on responsible consumption, and Goal 14 on life below water are just a few of the 17 universal objectives that incorporate tourism as an ambition. In 2015, the United Nations General Assembly highlighted the "economic development, social integration, and cultural and environment preservation" (World tourist Organisation) potential of the tourist sector by declaring 2017 as the International Year of Responsible Tourism for growth.

Ghali (1976) and Lanza and Pigliaru (2000) produced the first empirical research on the effects of tourism on economic growth. Since the first paper was released in 2002 by Balaguer and Cantavella-Jordà, the so-called "tourism-led growth hypothesis" (TLGH) and its reciprocal "economic-led tourism hypothesis" (ELTH) have emerged as two of the most prominent topics in tourism literature, with a wealth of empirical studies

(Perles-Ribes et al., 2017). Pablo-Romero and Molina (2013) divided empirical investigations into three groups: cross-sectional, time series, and panel data.

From a total of 87 studies, 55 found a univocal relationship between tourism and growth, 16 found a bi-univocal relationship, 9 showed a connection from economic growth to tourism, and only 4 found no link between the two. Both TLGH and ELTH may be traced back to the export-led growth hypothesis (Brida et al., 2016), which states that boosting exports in addition to domestic increases in labour and capital can lead to economic growth.

Earnings from tourism may improve the balance of payments (Oh, 2005) and spur economic development (McKinnon, 1964) when invested in the local economy to increase production of products and services. Nowak et al. (2007) reassessed this concept and proposed the so-called 'TKIG hypothesis' (tourism > capital goods imports > growth): exports from the tourist industry contribute to imports of capital goods, which in turn drive to economic expansion.

There is some evidence that TLG and TKIG collaborate, however it is inconsistent. While there is evidence for a long-term TKIG mechanism in Spain (Nowak et al., 2007), researchers in Tunisia (Cortés-Jiménez et al., 2011) have only identified evidence for a short-term TKIG mechanism. Tax revenue growth, new job opportunities, and diversified income streams are only some of the economic advantages that may result from tourism (Archer 1995; Belisle and Hoy 1980; Durbarray 2002; Uysal and Gitelson 1994; West 1993).

The economic effects of major events like the Olympics and the FIFA World Cup may be related. Many of these studies (Bohlmann and van Heerden, 2008; Kim et al., 2006; Lee and Taylor, 2005; Li and Jago, 2013) have concentrated on the economic benefits, such as tax revenues, employment, investments, and infrastructure development, while some focused on the psychological impacts on locals (e.g. Kim and Petrick, 2005).

However, tourism's success—known as the "Dutch disease effect" (Copeland, 1991) may slow economic development by leading to the deindustrialization of allied sectors. Song et al. (2012) note that although they do not anticipate manufacturing sector contractions in the long-run period, the risk of such an effect is still true in either the short- or medium-term. Environmental externalities and social externalities include

overexploitation of natural resources (Capó et al., 2007; Holzner, 2005), rising living expenses, and asset bubbles. References: (Copeland, 1991; Sheng & Tsui, 2009),

Given the breadth and diversity of the aforementioned approaches to the issue of tourism's economic effect, we propose a method that will make it possible to quickly identify the foundational works in each subfield. As stated by Strozzi et al. (2017), citation counts are often employed as a surrogate for importance. This technique has certain limitations, however, since freshly released articles are less likely to get many citations and may be overlooked despite the significance of their findings. A large number of citations is not always indicative of high-quality research, as was previously stated (Dawson et al., 2014).

1.10.2. Dependent Variable – Profitability in Islamic Banks

According to the International Association of Islamic Banks (IAIB), an Islamic bank is a financial institution that operates in strict accordance with Islamic Shariah in all of its financial and business activities. Accordingly, it is quite evident that Islamic banking stands apart from traditional banking in terms of its goal, aims, and responsibilities to society. The Islamic bank is more responsible for all these things than a regular bank would be (Hassan & Adnan, 1998).

Traditional banking is based on the debtor-creditor relationship that is formed via interest rates, which set the cost of credit and represent the opportunity cost of money, between depositors and the bank on the one hand, as well as between debtors and the bank on the other.

The results of Islamic banks in the Middle East were analysed by Bashir (2003), who focused on the years 1993–1998. He used the ratios of Non-Interest Margin (NIM), Before-Tax Profit (BTP), Return on Assets (ROA), and Return on Equity (ROE) to assess financial success (ROE). The results corroborate earlier studies and demonstrate a favourable correlation between equity and loans in the profitability of Islamic banks. The findings also show that a country's overall economic health has a constructive effect on business success.

Throughout an interest rate cycle, Hassoune (2002) examined the profitability of Islamic banks. According to the data shown here, interest is the foundation of traditional

Western banks whereas profit and loss are shared among shareholders in Islamic banks prevalent in the Middle East and Africa. Hassoune also examines the dissimilarities between Islamic and conventional banks in Kuwait, Saudi Arabia, and Qatar with regard to the volatility of return on equity and return on assets. The author of a 2002 article on Islamic banking argues that "managements have to offer sufficient returns for investors because they are not prepared to accept no profits" (Hassoune, 2002).

Meezan Bank, Pakistan's first Islamic financial institution, was compared to five conventional banks in terms of their performance in a study conducted by Sanullah Ansari and Atiqah Rehman in 2010. Profitability, liquidity, risk, and efficiency were all considered in the research, which covered the years 2003-2007.

There were a total of twelve financial measures used to evaluate banks, including the Return on Asset (ROA), Return on Equity (ROE), Loan to Deposit (LDR), Loan to Assets (LAR), Debt to Equity Ratio (DER), Asset Utilization (AU), and Income to Expense Ratio (IER). The T-test and the Fisher exact test were used to determine whether or not there was a statistically significant difference between the two sets of Results. MBL is less profitable, more solvent (less risky), and less efficient than the average of the 5 Conventional banks, according to our data. However, there was little difference in liquidity between the two sets of banks (Moin, 2008). Islamic banks are not as successful as conventional ones when it comes to fostering economic expansion (Farooq, 2007).

Mahmood (2005) added to the existing literature by contrasting the economic outcomes of Islamic and conventional banking using banks in Pakistan as a case study. During the four years he examined (2000-2004), he discovered that Islamic banks outperformed their conventional counterparts in almost every metric. Financial performance comparisons between Islamic banks and conventional banks in the UAE were also studied in the study by Kader et al. (2007), indicating that similar research was undertaken in other Middle Eastern nations.

There was little to no difference in profitability or liquidity between Islamic banks and conventional banks, according to the conclusions of a recent study (Hamidah Ramlan and Mohd Sharrizat Adnan, 2016). Samad (2004) analysed the financial results of Islamic banks and conventional banks in Bahrain between 1991 and 2001. Findings also

revealed no statistically significant difference between Islamic and traditional financial institutions on measures of profitability and liquidity.

1.10.3. Control Variables

The findings of this study may be affected by a wide range of factors. Because this study's major variables are based on a theoretical framework, it is important to account for potential sources of unwanted variation by including control variables (CV). In this analysis, business size (number of workers), legal status (kind of ownership), and engagement (number of years in industry) serve as independent variables.

1. Firm Size (Number of Employees)

Empirical research often include the business size as a control variable (Kurshev & Strebulaev, 2006; Ali, Salleh, & Hassan, 2008; Jayaram et al., 2011). The relationship between business size and performance is well-established. In this analysis, we use employee count as a proxy for business size. As one example, larger companies may be more equipped to execute supply chain management practises due to their size (Wagner, George-Ruyken, & Erhun, 2012).

2. Legal Status (Ownership)

The status of the organisation under the law is the second control variable. According to Eltayeb and Zailani (2014), a firm's size is correlated with the number of people involved in its management. Due to cheap labour and materials, as well as other advantages, Turkey has attracted the headquarters of many multinational corporations. Local firm, foreign-local company, and multinational corporation all appear in this research as independent variables. Depending on the kind of ownership structure in place, the business may be managed in a way that affects its performance in various ways. Therefore, this study's control variable is participants' legal status.

3. Involvement (Length in Industry)

Time spent in the sector correlates with familiarity with business procedures and supply chain best practises. A company's familiarity with its market and its consumers decreases in direct proportion to how long it has been in business (Ramaswami, Srivasta, & Bhargava, 2009). In other words, the longer the respondents have been in the business, the more experience they have and the more familiar they are with the

industry, its suppliers, its rivals, and its consumers. This also indicates that the data collected for this research are more trustworthy. In addition, "young" businesses are more likely to waste time and resources on wasteful practises in their formative years and take longer to establish trusting relationships with their commercial counterparts (Ramaswami et al., 2009).

1.11. Theoretical Framework:

We have already gone into depth in this chapter on the FDI in Turkey and its various facets and getting a deep understanding on the topic. The FDI is important factor independent variables in this study and we aim to understand the impact it has on the dependent variable which is the profitability of banks. As we have mentioned above, we are looking in to the profitability of two types of banks namely the Islamic as well as the Conventional banks. This study will show the impact the FDI will have on the success of Turkey's financial institutions.

The other key independent variable in this study is the tourism. Just like FDI, we have gone in depth on the tourism and the various aspects of tourism. We have also explored the importance of tourism for any economy and the various different ways in which it can impact the economy. This study will look into the impact tourism on the profitability of banks. Tourism is key factor for any nation as it directly adds into the GDP of a nation and the higher the rate of tourism the higher will the GDP of a nation. But that does not necessarily equate to the profitability of banks. Banks are the pillars of any nation as they are the main financial institutions. We will get an understanding as to how the tourism behaves on the profitability of the banks and whether is positively or adversely affects the profitability of the banks.

The third most important variable that we have used in the study is the dependent variable and It varies greatly from case to case. We dependent variable in this study is the profitability of the banks. We have looked at two different categories of banks in this study namely the Islamic banks as well as the conventional banks. We have taken three banks into consideration for both the aforementioned category.

The Islamic banks taken in this study are Kuveyt Turk, Albadraka Turk and Turkiye Finans. The conventional banks taken in this study are Ziraat bank, Is Bank and Garanti

Bank. It is important to mention that banks are the pillar of any nation and the main financial instrument. They are institutions that support the nation in terms of deposits as well as investments. Their growth are important for any nation and if their profitability are thwarted then the GDP of the nation may be adversely affected as well.

Keeping these variables in mind and using suitable control variables that will be used for the analysis; we have developed the theoretical framework that we are going to be using for this study. Following figure gives an understanding of the theoretical framework and the key variables in this study.

Figure 4: displays a theoretical framework to accomplish the research aims mentioned in the introduction. First, the study's independent variables are determined, and then the study's dependent variable is determined.

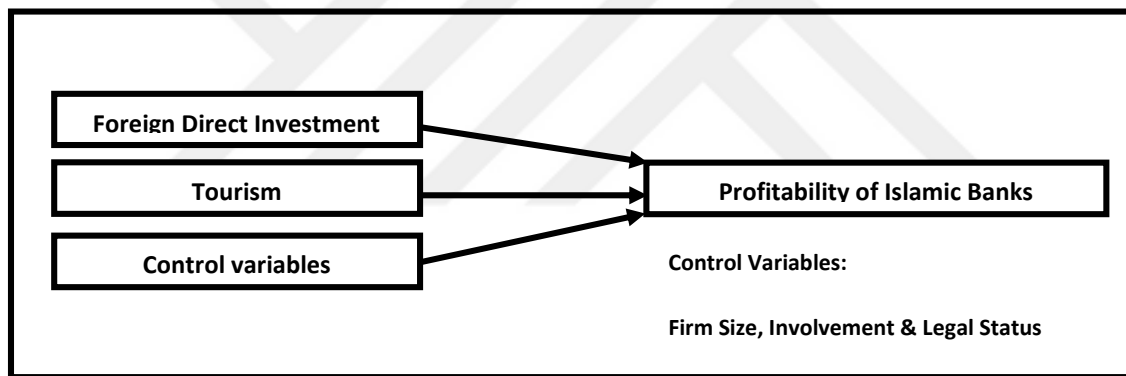


Figure 1: Theoretical Framework

Source: Created by the author.

1.12. Hypothesis Development

This section constitutes the main body of the research and based on the theoretical framework we have devised the hypotheses in the chapter. There are two independent variables and one dependent variable in this study. We aim to understand the relationship between the independent variables and the dependent variable. We also will aim to see if there is any correlation between the two independent variables.

This may lead to bias in the results. The following chapter will gather and analyse the information the results will finally help to prove these hypotheses. Three key hypotheses have been suggested to outline the link between the associated variables in

the research, based on the literature review and theoretical framework. The independent variables in this study are the foreign direct investment and the tourism and dependent variable in this study is the profitability of the Islamic banks.

This study is done from the evidence point of view of Turkey. Thus the data that will be collected is from Turkey. There are two industries that we will look into in this study and that are the tourism sector as well as the banking sector. We have further segregated the banking sector into the traditional Islamic banks as well as the conventional banks. Our main focus though will be on the Islamic banks.

The two independent variables have very little lineation between them even though foreign direct investment can tap into all sorts of industries. We will see and try to work out their relationship in this study as well. Following are the three hypotheses that we have formulated for this study.

Hypothesis 1: FDI and Profitability

H1: There is a positive relationship between the Foreign Direct Investment and the Profitability of banks.

In this study we will analyse whether there is a positive relation between the FDI and the profitability of the banks. We will see if the investment coming into the nation helps in augmenting the profit levels of the various different banks in Turkey.

Hypothesis 2: Tourism and the Profitability.

In this study we will analyse whether there is a positive relation between the Tourism and the profitability of the banks. Tourism plays a major role in the GDP of a nation. That however does not conclude a direct relation with the profitability of banks. How it behaves with the profitability of banks is something that this research will look and prove with its analysis. We will see if the tourism helps positively or negatively in the profit levels of the various different banks in Turkey.

H1: There is a positive relationship between the Tourism and the Profitability of banks.

Hypothesis 3: FDI and Tourism

H1: There is a positive relationship between the FDI and the Tourism.

In this study we will analyse whether there is a positive relation between the FDI and Tourism. Both FDI and Tourism are the independent variables in this study and we will see if these variables are related to each other in this study as well.

1.13. Summary

Past studies on Turkish FDI, The aforementioned works discuss Islamic banking's success and Turkish tourism. The underlying theoretical frameworks of the investigation are also explained here. In addition, a theoretical foundation for the research has been presented, and hypotheses have been developed and will be tested in later chapters. Therefore, the purpose of this chapter is to provide all of the material that is pertinent to this investigation.

CHAPTER II: METHODOLOGY

2.1. Introduction

This section describes the procedures used during the study's analysis. In this chapter, we'll go further into the methodology. The population, sample frame, sampling method, analysed unit, and data analysis strategies are all covered in this section. This chapter elaborates on the survey methodology used in the preceding section, which is part of a larger quantitative research project.

2.2. Research Design

As a quantitative study, the survey is the primary data collection method. Hypothesis testing is also used in this study to learn more about the theoretical factors. In this part, we'll go deep into the study's design, unit of analysis, population, sample, data collection, and analysis.

2.2.1. Type of Study

Because of its focus on describing the most salient factors in connection to the research topic, this study fits the definition of a correlational study. In addition, data will be collected just once over the time frame of this research. It is, thus, a cross-sectional survey.

2.2.2. Unit of Analysis

This study's respondents are the company's upper management, hence the company itself serves as the unit of analysis. They were picked because they can comprehend the company's inner workings and procedures. Companies operating in Turkey's banking sector are the primary subject of this analysis. According to research that has been done thus far. Here, we'll compare and contrast two types of banks: Islamic and Traditional. Three of the largest banks in each of these groups will be surveyed. In this research, we employed Kuveyt Turk, Albadraka Turk, and Turkiye Finans, all of which are Islamic financial institutions. In this research, we used Ziraat Bank, İş Bank, and Garanti Bank, all of which are examples of conventional banks.

2.2.3. Population and Sample

The Turkish banking industry constitutes the sample population. There are now two distinct types of financial institutions: Islamic banks and conventional banks. The sample size is based on information from these 6 different banks.

Research success depends on drawing a statistically valid sample from the target population. The source has been established, and a representative sample will be chosen from it. Information from these 6 financial institutions spans numerous years, from 2009 through 2020.

Since the population is complex and includes more than one variable, the researchers utilised a stratified random sampling method. In this analysis, we focus on a single industry as the population.

2.3. Data Collection Method

If you require quantitative data, you should conduct a survey and send it to yourself using the postal survey method. The survey has been conducted for the 6 banks namely Kuveyt Turk, Albadraka Turk, Turkiye Finans, Ziraat bank, Is bank and Garanti bank. The data that has been collected is for multiple years ranging from 2009 to 2020. The data that has been collected will be used to test the hypothesis that has been conducted in the previous chapter and finally draw a conclusion from running the data.

2.4. Survey Design

As mentioned before the survey has been designed to gather information from the 6 banks mentioned before. The data that has been collected is for the years from 2009 to 2020. The data that has been collected has been mentioned in the following column.

Table 1: Data Label Abbreviations

NET INCOME/LOSS (profitability)	NIL
Total Loans/Total Funds Collected	ROA
Net Income-Loss/ Total Equity	ROE
(Liquidity risk) Total Loans/Total Assets	LR
Foreign direct investment, net inflows (% of GDP)	FDI
GDP growth	GDP
Inflation rate	INF
Unemployment rate	UNE
Number of tourist arrivals	NTA
Petrol price	PET
Gold price	DP

Source: Created by the author.

This is the data that has been conducted using the survey from the banks in concern. The data has been collected for all the rows mentioned above ranging from the year 2009 – 2020.

2.5. Data Analysis

This study purposes the use statistical software Stata.

2.5.1. Fixed Effects

Variables like age, sex, and ethnicity are examples of fixed effects since they are stable among people and do not vary over time or change at a steady pace. This means that whatever change they bring about in a person is always the same. Consequences, such as those associated with being a woman, a person of colour, or a teenager, do not fade with time.

These factors, it is suggested, may evolve through time. Take, for instance, the situation of working women: According to Forbes, cracks are appearing in the glass ceiling. However, social change moves at a glacial pace (it took 26 years for Britain to elect its second female prime leader, Theresa May, after Margaret Thatcher). Therefore, these factors are assumed to be constant throughout the duration of the study or experiment.

Because the fixed-effects model accounts for time-invariant differences across subjects, the estimated coefficients of fixed-effects models are immune to bias due to the exclusion of time-invariant characteristics.

differences [in terms of] [race, sexual orientation, and religion] While there are numerous benefits to using a fixed-effects model, one drawback is that it cannot be utilised to investigate time-invariant sources of dependent variables. The dummies representing people and their time-invariant characteristics are perfectly collinear. The goal of fixed-effects models is to learn what causes variation within a person or group. Something that doesn't change over time, like a person's collection of qualities, can't cause such a change. (Italics mine) Statistics Using Stata, Second Edition, by Kohler, Ulrich, and Frauke Kreuter, page 245.

2.5.2. Random Effects

Random effects might be seen as the polar opposite of fixed ones. As the name implies, random variables are completely unexpected. Examples:

Prices for a three-course meal might vary widely from one establishment to the next (Yulee, Florida will be a lot cheaper than New York City).

How much a brand-new automobile will set you back depends on the year it was made (e.g. 1941 vs. 2018).

According to Green (2008), the difference between the fixed effects model and the random effects model is not whether the unobserved individual effect is stochastically generated, but rather whether it contains elements that are correlated with the regressors in the model.

Use random effects if you have suspicions that inter-entity variation affects your outcome of interest. One benefit of using random effects is that it allows for the incorporation of time-independent variables (i.e. gender). The intercept accounts for these factors in the fixed effects model. In a nutshell, the random effects model entails: $Y_{it} = \beta X_{it} + \alpha + u_{it} + \varepsilon_{it}$

It is possible for time-invariant variables to serve as explanatory variables when using random effects, which presume that the entity's error term is uncorrelated with the predictors. Individual traits that may or may not affect the predictor variables must be specified in random-effects models. However, this might cause omitted variable bias if not all relevant variables are included. The findings from RE may be extrapolated beyond the model's training sample.

2.5.3. GMM Analysis

This chapter focuses on the Generalized Method of Moments (GMM) estimator's class of estimators that are employed in this thesis. However, the paper includes an explanation of the Hodrick-Prescott Filter used to defriend certain series before talking about the GMM technique.

The Hodrick-Prescott (1997) filter has been used to remove the cyclical component from a number of time series, including the coincident business cycle and industrial output. Hodrick and Prescott (1997) state that each given series y has both a trend (s) and a cyclical component (c). The Hodrick-Prescott (HP) filter is a method for determining the smoothed component s by limiting the second difference of s and minimising the variance of y around s . The example is provided by

$$\min \sum_{t=1}^T (y_t - S_t)^2 + \lambda \sum_{t=2}^{T-1} ((S_{t+1} - S_t) + (S_t - S_{t-1}))^2$$

Exactly where T is the total number of observations and V is the corresponding penalty parameter. The penalty increases as V increases, where V is a function of data frequency. In their analysis of monthly data, Hodrick and Prescott (1997) found that a value of $V = 14\,400$ was appropriate.

The HP trend calculation end-point issue necessitates using the sample for both the beginning and the conclusion of the process. Regarding baselines, this research uses real data for the twelve months preceding to the year 2000. The decomposed series have been subjected to an autoregressive ($AR(n)$) estimate, and the AR model will be used to foretell extra observations that must be added to each series before applying the HP filter, all with respect to the series' terminal points.

Researchers use the method (with n equal to 4 to rule out serial correlation) to both the output measure and the components of the economic index. The generated smoothed representation s (trend) is the potential level of a given time series.

The cyclical components depict fluctuations that occur around the long-term trend. Short-term levels below their potential levels are indicated by a negative cyclical

component; long-term levels beyond their potential levels are indicated by a positive cyclical component (Mise et al., 2005).

Since Hansen's landmark publication (1982), GMM estimators have seen widespread application for two reasons, as stated by Johnston and DiNardo (1997).

First, GMM offers a helpful framework for comparing and evaluating several popular estimators by nesting them inside one another. Second, when the maximum likelihood estimator is too complicated to write down, GMM offers a "simple" alternative.

In the context of monetary policy regulations, GMM may be used to predict future reactions to interest rate changes that would otherwise be impossible to gauge at the time of the central bank's decision-making process. A possible simultaneity bias between the instrument and the explanatory variables may also be avoided using this strategy (Vdovichenko and Voronina, 2006).

GMM estimate begins with the conventional Method of Moments (MOM). The concept behind the Method of Moments is to estimate a population moment using a comparable sample moment. The vector of L moment conditions that the true parameters β should satisfy may be written as

$$E[m(y_t, \beta)] = 0$$

Where y^t is a vector of variables observed at time t and β is the unique value of a set of parameters that makes the expectation equal to zero. Orthogonal conditions between a set of instrumental variables Z^t and the equation's residuals should typically be met by the equation above.

As follows:

$$E[Z_t \mu_t(\beta)] = 0$$

Where X_t is a set of variables that can explain what happened at time t. By substituting the sample analogue for the moment conditions in the equation, the following classical MOM estimator is obtained.

$$m_T(\beta) = \frac{1}{T} \sum_{t=1}^T Z_t u_t(\beta) = \frac{1}{T} Z' u(\beta) = 0;$$

If the number of moment conditions (L) is equal to the number of parameter estimations (K), then the MOM will provide a perfect solution to the equation (where T is the sample size).

However, in general, there are more unknown parameters than moment conditions; ($L > K$). The GMM provides an alternative method of handling this "over identified system" scenario. To address the situation when there are more estimating equations moment conditions L than unknown parameters β , the GMM technique was developed as an extension of the conventional MOM method (Mittelhammer et al., 2000). Despite the fact that an over identified system typically has no exact solution, GMM is thought to reformulate the problem by selecting a β that brings the sample moment as close to a zero vector as possible. The following quadratic function is utilised to achieve this goal:

$$J(\beta, \hat{W}_T) = T m_T(\beta)' \hat{W}_T^{-1} m_T(\beta) = \frac{1}{T} u(\beta)' Z \hat{W}_T^{-1} Z' u(\beta)$$

Where W^t is an (m x m) weighting matrix which minimizes the weighted distance between the theoretical and actual values. At this point, it's important to emphasise two more advantages of adopting GMM: First of all, it generates estimates that are compatible with any positive definite weighting matrix. For instance, Mittelhammer et al. (2000) claim that as a function of the weighting matrix, the GMM technique offers a whole family of consistent and asymptotically normally distributed estimators. Another advantage is that GMM is asymptotically more effective than its special variants in the presence of heteroscedastic faults (for example 2SLS).

2.6. Summary

This chapter, therefore, talks about the technique used in this research and how the data was collected for the quantitative study. In this chapter, we have covered both the methods used to acquire the data and the statistical analyses that may be performed on that data. This chapter offers a detailed account of the procedures used to the data in order to get the findings of the study.

CHAPTER III: RESULTS

3.1. Introduction

The fourth chapter has focused on hypothesis testing and implication of various statistical tests to ascertain whether FDI and Tourism have influenced the profitability of the banks or not. The data of three out of six Islamic banks operating in the Turkish banking industry is analysed using static and dynamic panel generalized methods of moments (GMM) estimate approaches for the period 2009-2020. The results of the tests have reflected that there exist positive relationship between the FDI and profitability of the banks.

The data set provided related to Islamic banks has been interpreted and analysed in this section of the study. The actual impact of the “foreign direct investment (FDI)” and Tourism on the profitability of the selected banks has been identified by conducting statistical tests like fixed effects and random effects. In addition to this the hypothesis test has conducted by implicating GMM test in the software. This chapter has provided a brief summary of the results of the test has been presented. Moreover, the relation between the FDI, Tourism and the Profitability of the Islamic bank are “Garanti, Ziraat Bankas, iş Bank”, “Albaraka Türk Katılım Bankası A.Ş”., “Kuveyt Türk Katılım Bankası A.Ş”. and “Türkiye Finans Katılım Bankası A.Ş.” has been tested in this section.

3.2. Findings From The Statistical Output

3.2.1. Fixed Effects Output (for both Islamic and conventional banks):

The actual impact of the FDI on the financial institution has been identified by the effective implication of statistical tests. As per the reference of McNeish & Kelley (2019), the accuracy in predicting the fixed effect of FDI on the “income and profitability” of financial institutions has been tested effectively. The same appears to be true for how tourism affects bank profitability.

1. Hypotheses for FDI

Null hypothesis (H0): “Foreign direct investment (FDI)” has not influenced the Profitability that is “net income” of the selected data set.

Alternative hypothesis (H1): “Foreign direct investment (FDI)” has influenced the Profitability that is “net income” of the selected data set.

2. Hypotheses for Tourism

Null hypothesis (H0): Tourism has not influenced the Profitability that is “net income” of the selected data set.

Alternative hypothesis (H1): Tourism has influenced the Profitability that is “net income” of the selected data set.

Table 2: Fixed Effects Results

NIL	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
FDI	.454	.558	0.81	.419	-.666	1.574	
NOT	-.279	.156	-1.79	.08	-.591	.034	*
GP	58.791	71.881	0.82	.417	-85.585	203.167	
INF	465708.91	1044099.3	0.45	.657	-1631426.2	2562844	
PET	651.612	972.217	0.67	.506	-1301.143	2604.367	
LR	-26650.549	201782.6	-0.13	.895	-431942.83	378641.74	
UNE	2191559.4	2248059.9	0.97	.334	-2323801.8	6706920.5	
GDP	1206002.9	5596024.7	0.22	.83	-10033944	12445949	
BC	-489848.03	1015987	-0.48	.632	-2530518	1550821.9	
ROE	1192384.9	350731.23	3.40	.001	487920.46	1896849.3	***
Constant	-198752.98	116646.17	-1.70	.095	-433043.71	35537.751	*
Mean dependent var		179184.333	SD dependent var		264564.031		
Overall r-squared		0.097	Number of obs		66		
F-test		3.561	Prob > F		0.000		
Akaike crit. (AIC)		1643.132	Bayesian crit. (BIC)		1667.219		

*** $p < .01$, ** $p < .05$, * $p < .1$

Source: Created by the author.

Regarding the effect of foreign investment on banks, the Fixed Effect test yields non-significant findings with a 0.419 p-value that is more than 0.10, therefore the H0 is accepted and the H1 is rejected. When it comes to tourism, there is evidence that it significantly impacts bank profits, as shown by a 0.08 p-value with -0.279 coefficients which suggests that H1 is accepted and H0 is rejected.

3.2.2. Random Effects Output

The possibility or probability of identifying or estimating shrunken residuals and effectiveness in identifying the relationship between the “randomly selected variables” has been ascertained by the “random effect model”. The hypothesis and variables have been similar as mentioned in the fixed effect model section of the analysis. The

command “xtreg NIL FDI NOT UNE INF GP GDP LR ROE PET, re” has been used to identify the random relation between the FDI and Net income of the selected data set.

1. Hypotheses for FDI

Null hypothesis (H0): “Foreign direct investment (FDI)” has not impacted the Profitability of the selected data set.

Alternative hypothesis (H1): “Foreign direct investment (FDI)” has impacted the Profitability of the selected data set.

2. Hypotheses for Tourism

Null hypothesis (H0): Tourism has not impacted the Profitability of the selected data set.

Alternative hypothesis (H1): Tourism has impacted the Profitability of the selected data set.

Table 3: Random Effect Results

NIL	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
FDI	.777	.447	1.74	.083	-.1	1.654	*
NOT	-.336	.14	-2.39	.017	-.611	-.061	**
GP	115.288	61.516	1.87	.061	-5.281	235.857	*
INF	1601132.5	503692.47	3.18	.001	613913.4	2588351.6	***
PET	-309.529	776.756	-0.40	.69	-1831.942	1212.885	
LR	-107299.91	167760.29	-0.64	.522	-436104.03	221504.21	
UNE	3759183.2	1653891.2	2.27	.023	517616.12	7000750.3	**
GDP	6466553.8	3098517.7	2.09	.037	393570.6	12539537	**
BC	-1757204.5	1020291.8	-1.72	.085	-3756939.6	242530.61	*
ROE	1145706.7	379704.66	3.02	.003	401499.18	1889914.1	***
Constant	-960297.07	595767.53	-1.61	.107	-2127980	207385.84	
Mean dependent var		179184.333	SD dependent var		264564.031		
Overall r-squared		0.214	Number of obs		72		
Chi-square		49.917	Prob > chi2		0.000		
R-squared within		0.542	R-squared between		0.003		

*** $p < .01$, ** $p < .05$, * $p < .1$

Source: Created by the author.

The H1 is accepted, and the H0 is rejected based on the Fixed Effect test results, which show significant results with a 0.083 p-value and 0.777 coefficients regarding the favourable impact of foreign investment on banks. Related to tourism, a 0.017 p-value and a -0.336 coefficient indicate that it has a strong, significant negative influence on bank profits, meaning that H1 is accepted and H0 is rejected. Here “H1 hypothesis” has

been rejected and the “H0 hypothesis” has been satisfied as there exists a “positive relationship” between the variables.

3.2.3. GMM Output

The autocorrelation of the selected constant or “dependent variable” with the “other independent variable” has been identified by the effective conduction of the “GMM model test” (Mroua & Trabelsi, 2020). GMM model has generalised the effective “methods of moments” of time series data.

1. Hypotheses for FDI

Null hypothesis (H0): “Foreign direct investment (FDI)” has not impacted the Profitability of the selected data set.

Alternative hypothesis (H1): “Foreign direct investment (FDI)” has impacted the Profitability of the selected data set.

Table 4: GMM Test Output of FDI

NIL	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
L	1.1	.085	12.99	0	.934	1.267	***
FDI	.441	.264	1.67	.095	.959	.077	*
ROE	542093.25	319872.69	1.69	.09	-84845.705	1169032.2	*
INF	-127412.38	109663.6	-1.16	.245	-342349.09	87524.339	
UNE	-778434.11	789547.34	-0.99	.324	-2325918.5	769050.24	
LR	90249.813	42225.121	2.14	.033	7490.097	173009.53	**
BC	-2006917.6	994494.53	-2.02	.044	-3956091.1	-57744.154	**
GDP	-3196751.4	1626950.4	-1.96	.049	-6385515.6	-7987.282	**
Constant	515055.1	325018.76	1.58	.113	-121969.96	1152080.2	
Mean dependent var		189219.530	SD dependent var		273483.930		
Number of obs		66	Chi-square		142772084147.51		
							1

*** $p < .01$, ** $p < .05$, * $p < .1$

Source: Created by the author.

The H1 is accepted and the H0 is rejected because the GMM test findings show significant results on the positive impact of foreign investment on banks with a 0.095 p-value and 0.441 coefficients.

2. Hypotheses for Tourism

Null hypothesis (H0): Tourism has not impacted the Profitability of the selected data set.

Alternative hypothesis (H1): Tourism has impacted the Profitability of the selected data set.

Table 5: GMM Test Output of Tourism

NIL	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
L	1.107	.079	13.99	0.	.952	1.262	***
NOT	-0.221	.11	-2.00	.045	-.437	-.005	**
INF	382486.03	250604.83	1.53	.127	-108690.41	873662.46	
UNE	76801.912	656475.62	0.12	.907	-1209866.7	1363470.5	
BC	-1256042.7	496345.78	-2.53	.011	-2228862.6	-283222.85	**
ROE	694203.18	305351.96	2.27	.023	95724.323	1292682	**
LR	87772.15	44939.026	1.95	.051	-306.722	175851.02	*
PET	251.513	218.357	1.15	.249	-176.459	679.486	
Constant	3197.519	110944.56	0.03	.977	-214249.83	220644.86	
Mean dependent var		189219.530	SD dependent var		273483.930		
Number of obs		66	Chi-square		147.950		

*** $p < .01$, ** $p < .05$, * $p < .1$

Source: Created by the author.

With a 0.045 p-value and -0.221 coefficients, it appears that tourism has a very significant negative impact on bank profits; therefore, H1 is accepted and H0 is rejected.

3.3. Impact of FDI and Tourism on Islamic Bank Profitability

Tourism and FDI are both the most important influences on the Turkish economy, and the banking sector, including Islamic banks, is a powerful component in the economy, so understanding the nature of the relationship between FDI, tourism and Islamic bank profits is critical, as shown by the results of the tests in the following tables.

3.3.1. Fixed Effect

1. Hypotheses for Tourism

Null hypothesis (H0): Tourism has not influenced the Profitability that is “net income” of the selected data set.

Alternative hypothesis (H1): Tourism has influenced the Profitability that is “net income” of the selected data set.

2. Hypotheses for FDI

Null hypothesis (H0): “Foreign direct investment (FDI)” has not impacted the Profitability of the selected data set.

Alternative hypothesis (H1): “Foreign direct investment (FDI)” has impacted the Profitability of the selected data set.

Table 6: Fixed Effects Results FDI and Tourism on Islamic Bank

NIL	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
FDI	.972	.95	1.02	.319	-1.01	2.954	
NOT	-.005	.002	-1.95	.065	-.01	0	*
GP	35.288	105.776	0.33	.742	-185.357	255.933	
INF	1485041.6	1679502.3	0.88	.387	-2018338.8	4988422	
PET	721.105	1529.363	0.47	.642	-2469.09	3911.299	
BC	-3878102.9	1787414.9	-2.17	.042	-7606585	-149620.86	**
UNE	5769433	3720061.8	1.55	.137	-1990479.9	13529346	
ROA	36450716	9780635.2	3.73	.001	16048668	56852763	***
ROE	101.923	76.953	1.32	.2	-58.599	262.445	
GDP	5274848.4	9323640.9	0.57	.578	-14173926	24723622	
Constant	-704821.01	204342.39	-3.45	.003	-1131071.8	-278570.24	***
Mean dependent var		353479.306	SD dependent var			281939.756	
Overall r-squared		0.609	Number of obs			33	
F-test		5.567	Prob > F			0.000	
Akaike crit. (AIC)		830.378	Bayesian crit. (BIC)			846.840	

*** $p < .01$, ** $p < .05$, * $p < .1$

Source: Created by the author.

The coefficients of independent variable NOT “Number of tourism arrived” is significant with the p-value less than 0.065. This demonstrates that a rise in visiting tourists has a negative effect on bank revenues, particularly Islamic bank, which means H0 is accepted and H1 is rejected. About FDI it appears that it has a Non-significant impact on Islamic banks' profits because a 0.319 p-value is bigger than 0.10, which means H1 is rejected, and H0 is accepted.

3.3.2. Random Effects Output

The following represents the results output of random effect model.

Table 7: Random Effects Results

NIL	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
FDI	1.97	.888	2.22	.027	.23	3.71	**
NOT	-.006	.003	-2.36	.018	-.011	-.001	**
GP	128.356	97.322	1.32	.187	-62.392	319.104	
INF	3638649.7	984825.07	3.69	0	1708428	5568871.4	***
PET	-725.124	1259.309	-0.58	.565	-3193.323	1743.075	
BC	-5132887.4	1864274.8	-2.75	.006	-8786798.9	-1478975.9	***
UNE	9835807.6	3427382.3	2.87	.004	3118261.8	16553353	***
ROA	40196567	11140724	3.61	0	18361150	62031985	***
ROE	160.969	83.094	1.94	.053	-1.891	323.83	*
GDP	16905179	6494693.3	2.60	.009	4175814.2	29634544	***
Constant	-2691267.5	1202863.7	-2.24	.025	-5048837	-333698.04	**
Mean dependent var	353479.306	SD dependent var	281939.756				
Overall r-squared	0.703	Number of obs	36				
Chi-square	64.186	Prob > chi2	0.000				
R-squared within	0.804	R-squared between	0.877				

*** $p < .01$, ** $p < .05$, * $p < .1$

Source: Created by the author.

With a p-value of 0.018 and coefficients of -0.006, the independent variable NOT "Number of tourists arrived" has significant coefficients. This shows that an increase in visitors visiting a country has a detrimental impact on bank profits, especially those of Islamic banks, showing that H0 is accepted and H1 is denied. Due to a 0.027 p-value and 1.97, which indicates that H1 is rejected and H0 is accepted, it implies that FDI has a positive substantial influence on the earnings of Islamic banks.

3.3.3. GMM Output

The following represents the results output of random effect model.

Table 8: GMM Results Tourism

NIL	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
L	.943	.033	28.16	.001	.877	1.008	***
FDI	.466	.187	2.50	.012	.832	.1	**
NOT	-.001	.001	-1.97	.049	-.003	0	**
PET	-200.478	559.959	-0.36	.72	-1297.979	897.022	
GP	-3.515	52.485	-0.07	.947	-106.384	99.354	
BC	-3949886.3	716038.15	-5.52	0	-5353295.2	-2546477.3	***
LR	-603383.79	255414.2	-2.36	.018	-1103986.4	-102781.16	**
UNE	-221173.21	1604605.9	-0.14	.89	-3366143	2923796.5	
ROA	20720139	3160119.9	6.56	0	14526417	26913860	***
GDP	-2566494.7	715991.28	-3.58	0	-3969811.8	-1163177.6	***
Constant	969047.91	314226.64	3.08	.002	353175.02	1584920.8	***
Mean dependent var	373377.424		SD dependent var		286306.859		
Number of obs	33		Chi-square		66.524		

*** $p < .01$, ** $p < .05$, * $p < .1$

Source: Created by the author.

The independent variable NOT "Number of tourists arriving" exhibits significant coefficients with a p-value of 0.049 and coefficients of -0.001. This demonstrates that a rise in tourists has a negative effect on bank profits, particularly those of Islamic banks, demonstrating that H0 is accepted and H1 is rejected. Given that H1 is rejected and H0 is accepted by a 0.012 p-value and 0.466 coefficients, it is implied that FDI positively and significantly affects the profits of Islamic banks.

3.4. Statistical Analysis

The specific analysis of the "randomly selected data" of six banks has been conducted in this section of the analysis. The statistical analysis has clarified that FDI in the bank has increased the "profitability of the bank" as its net income has increased. However, the increase in net income has controlled the "inflation rate and the unemployment rate" of turkey.

The six specific variables that have been used for the condition of the statistical test are "FDI, Net income" to highlight the impact of FDI on the "Islamic bank's profitability" resided in the turkey. The fixed and random effects have confirmed that there has a "direct relationship" between the FDI with the "Net income and profitability" of the selected banks. These two aforementioned tests have satisfied the first constructed research objective that FDI has influenced the "survivability and profitability" of the selected Islamic banks.

The implication or conduction of “Fixed effect, Radom effect and GMM” has justified the third objective of the research which is to ascertain whether FDI has correlated with the net income or profitability of the Islamic banks. Furthermore, the positive t-value of the t-test has confirmed that the FDI has been positively related to the “net income of the banks” and has influenced the profitability positively. It has been identified from the finding section that if foreign direct investment in the banks has increased then the “survivability and profitability” of the banks has “positively increased”. Furthermore, the effect of tourism on the profitability of the “net income of the banks” looked negative in of GMM, fixed and random effect tests. Moreover, The GMM test has reflected that the “gearing of the banks” has directly increased along with Financial achievement of banks by an increase in FDI.

The relevant papers have confirmed that increase in tourism has increased foreign investment in the banks which has raised the creditability of the banks. As a consequence of this, the “profitability of the banks” has increased by an increase in the availability of deposits from foreign populations or tourists.

Furthermore, it has been identified that the reputation of the banks and contribution of the banks towards profitability and increasing the employment rate has improved by an increase in FDI. The coefficient, r-square value and F-statistics have examined the effective relationship between the FDI with the profitability of the Islamic banks selected in the analysis.

According to the findings, FDI has a beneficial influence on these banks' profitability, but tourism has a negative effect. This research's conclusions are comparable to the Saif-Alyousfi 2021 study, which indicated that tourism had a negative impact on bank profitability. The current study, as well as the effect of foreign direct investment on profitability, is linked to a study by (ACARAVCI and ŞENTÜRK; 2021, Mensi et al. 2020, Musah et al. 2018, Sghaier and Abida; 2013, Markusen and Venables; 1999), which found that foreign direct investment has a positive impact on bank profitability.

Looking at the numbers of arrivals from Muslim countries, it is clear that the percentage is approximately equal to 20% of the total number of visitors from other countries, for example in 2022 the number of approximately 10 million visitors out of 44 million visitors. This in itself constitutes a large number that Islamic banks must attract and benefit from the sums they deposit in order to turn the impact into a positive one on the profits of banks (T.C. K lt r ve Turizm Bakanlıđı 2023).

3.5. Summary

The conduction of the hypothesis test has summarised the relationship that exists in the selected variables. The “coefficient value” of the fixed effect and random effect test has reflected the impact of FDI on the net income of the six specific banks. It has been summarised from the conduction of GMM, fixed and random effect test that FDI has influenced the net income of the banks in the specific time period.

CONCLUSION

The value of this research was demonstrated by reviewing a significant number of previous studies, in that many studies touched on the impact of foreign direct investment, as well as the impact of tourists on the profits of banks in general, but in this study a sample of Islamic banks operating in Turkey was entered into tests in this study. The results of this research offered some advice on how to make the most of these two different types of funding. The primary purpose of this research is to investigate the ways in which tourism and foreign direct investment have an impact on the profitability of Islamic banks in Turkey. For the period 2009-2020, the data of three out of six Islamic banks that are active in the Turkish banking market are analysed utilising static and dynamic panel generalised methods of moments (GMM) estimation methodologies. According to the findings of the research, the profitability of Islamic banks is positively influenced by direct investments from outside, but the profitability of Islamic banks is adversely affected by contributions from tourists. When there are no Islamic banking products that accommodate to the tourism sector and because it is simple for tourists to exchange money with cashiers by going through the banking system, it is also evident from the results that there is a cash flow for tourists that go outside the banking system, particularly the Islamic ones. This means that it has no positive impact on the profits of Islamic banks. Contrarily, it appears that foreign direct investment benefits these institutions, since investors utilise banks because they offer a variety of services in this area.

Policy Recommendation

The report makes recommendations for both government decision-making bodies and Islamic banks. Specifically, the study makes the following recommendations for Islamic banks:

The study suggests that Islamic banks broaden the range of services they offer to the travel and tourism industry, such as financing travel and tourism, attracting travellers to Turkey as customers, and diversifying the types of services they offer to tourists in order to get the most out of the money that passes through the industry. By doing this, the result will be favourable as opposed to adverse.

In light of what this research's findings about the beneficial effects of foreign direct investment on banks' profitability suggested, the study suggests that Islamic banks expand their interest in direct foreign investment owing to the beneficial effects on their profitability.

Regarding the study's advice to the concerned government organisations:

The study makes recommendations for the relevant government agencies, particularly the Banking Supervision Department and the Association of Participating Banks, on how to overcome the challenges that banks and tourists face in order to directly involve them in the banking sector and change the impact from negative to positive. It also makes recommendations on how to develop the Islamic banking sector so that it can offer services to the tourism industry. Increasing interest in the foreign direct investment industry, which has a definite favourable effect on the profitability of Islamic banks, is another way to expand the Turkish Islamic banking market. In available to support recruiting tourists to the banking system and to take advantage of the cash flow offered by this sector, the research suggests the construction of a banking system with sophisticated services and a location in airports, such as the so-called tourist bank. This banking system makes it quick and simple for tourists to open accounts because it offers a special exchange rate for foreign currencies, as well as a mobile app that lets them use their money in Turkish lira while inside Turkey, in addition to offering shopping cards and money withdrawal options. This is a development that might have a favourable effect on how tourism affects the financial system.

Research Limitation

The study encountered various obstacles, the most significant of which was the scope of earlier research on Turkish Islamic banks, particularly that which examined the connection between tourism and foreign direct investment and how it affected financial achievement of Turkish Islamic banks. Additionally, the fact that the Islamic banking industry makes up just around 6% of the whole banking industry created a barrier to expanding the sample size or spending more time to get more precise answers.

Future Research Directions

This study concludes that there are a number of points that need to be examined and studies and research conducted to obtain more accurate results, such as expanding the study sample to include other countries similar to Turkey's situation in terms of direct foreign investment and tourism and working on comparing those countries with Turkey and discovering what those countries have done to develop the Islamic banking sector.

In addition to conducting research to determine the level of foreign direct investment in direct Islamic banks, and understanding the true cause of the negative effect of the number of tourists on the profitability of Islamic banks. Conduct studies based on this research to identify or recommend Islamic banking solutions that target the tourist industry in order to maximise the advantage from cash given by the tourism sector.

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