



**T.C. DOĐUř UNIVERSITY
INSTITUTE OF SOCIAL SCIENCES
MASTER OF BUSINESS ADMINISTRATION**

**THE ROLE OF FOREIGN DIRECT INVESTMENT IN TURKISH
ECONOMY**

MASTER’S THESIS

**AHMED ALLOUH
20172001012**

**SUPERVISOR
ASSIST. PROF. SUNA GÖNÜLTAř**

İSTANBUL, MAY 2020



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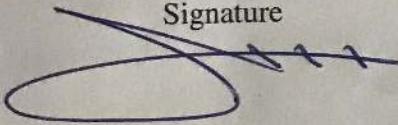
DECLARATION

I hereby declare that this master's thesis titled as
"...The Role of Foreign Direct Investment In Turkish Economy..."
has been written by myself in accordance with the academic rules and ethical conduct. I also
declare that all materials benefited in this thesis consist of the mentioned resources in the
reference list. I verify all these with my honor.

Date 08/06/2020

Ahmed Allouh

Signature

A handwritten signature in dark ink, consisting of a large, stylized loop followed by several horizontal strokes.

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AHMED ALLOUH

ABSTRACT

The aim of the study is to discuss the importance of mode of international market entries and to understand the role of Foreign Direct Investment (FDI) in the Turkish economy from the international business perspective. In this study, the importance of FDI and determinants of FDI are discussed and the factors that affect incoming FDI flows are analyzed. For empirical evaluation, Ordinary Least Square technique is used over the time duration 1988-2018. In the study growth, rate of FDI is used as dependent variable, while other factors used as variables that affect FDI inflows. Our results represent that economic growth and growth rate of foreign trade positively associated with the growth rate of FDI in Turkey although the results are insignificant because of data limitations. Growth rate of exchange rate and labor force participation rate are negative and insignificant while technology has negatively affect the growth rate of FDI in Turkey.

This research aims to enrich the economical knowledge on this field by analyzing and discussing some aspects of the topic as well as compiling statistics and data related to foreign direct investment and its climate in general, and set out to Turkey. It also enriches knowledge on this aspect of economic knowledge through the access to previous theoretical researches, literature and field of studies. According to the rising developments and progress in Turkish economy, policy makers in their external strategies should include FDI as an important factor in determining growth. Globalization of Turkey must be enhanced by forming strategies of attracting additional appropriate quantity of FDI to attain the positive influence of FDI on productivity and exports.

Keywords: Foreign direct investment, international business, economic growth, foreign trade, ordinary least square technique.

ÖZET

Bu çalışmanın amacı, uluslararası işletmecilik alanında önemli bir yere sahip olan piyasaya giriş modelleri tartışılarak ve Doğrudan Yabancı Yatırımların (DYY) Türkiye ekonomisindeki rolünü araştırmaktır. Bu amaçla, doğrudan yabancı yatırımların ekonomideki önemi ve DYY akımlarını etkileyen faktörler tartışılmıştır. Çalışmada 1988-2018 yılları arasında Türkiye'ye yapılan doğrudan yabancı yatırımlar En Küçük Kareler yöntemi ile analiz edilmiştir. Bağımlı değişken olarak doğrudan yabancı yatırımlardaki büyüme alınmış ve DYY etkileyen faktörler modele dahil edilmiştir. Çalışmanın sonuçlarında göre ekonomik büyüme ve dış ticaretteki büyüme Türkiye'ye gelen yabancı yatırımları olumlu etkilemektedir. Sonuçların beklenen anlamlılık düzeyinde çıkmaması veri kısıtı ile açıklanmaktadır. Döviz kurundaki değişim ve işgücüne katılım oranı ile anlamlı bir ilişki bulunamamıştır. Teknoloji ile ise negatif ve anlamlı bir ilişki bulunmuştur.

Bu çalışmada özellikle piyasaya giriş modelleri ve Türkiye'deki Doğrudan Yabancı Yatırım konusunda derinlemesine bir analiz yapılarak ilgili veriler sunulmuştur. Bu alanda önceden yapılan teorik ve ampirik çalışmalar derlenmiştir. Türkiye ekonomisinin kalkınması ve ilerlemesi açısından doğrudan yabancı yatırımların rolünün anlaşılması ve analiz edilmesi önem taşımaktadır. Bu açıdan bakıldığında, doğrudan yabancı yatırımlar derinlemesine analiz edilerek ülkenin ekonomik büyümesi ve üretkenlik artışındaki rolünün anlaşılması önem taşımaktadır.

Anahtar sözcükler: Doğrudan yabancı yatırım, uluslararası işletmecilik, ekonomik büyüme, dış ticaret, en küçük kareler yöntemi.

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ABBREVIATIONS

2SLS TECHNIQUE: Two-Stage Least Squares

CO₂: Carbon Dioxide

FDI: Foreign Direct Investment

FGLS: Feasible Generalized Least Square

FIN: Financial Market Indicators

GDP: Gross Domestic Profit

GDPPC: GDP Per Capita

GMM: Generalized Method of Moments

MENA: Middle East and North Africa Region

MNCs /MNEs: Multinational Corporations / Enterprises

OECD: Organization for Economic Co-Operation and Development

OLS TECHNIQUE: Ordinary Least Square Technique

UK: United Kingdom

US\$: United States Dollar

USA: United States of America

VAR TECHNIQUE: Value at Risk

1. INTRODUCTION

Foreign direct investment (FDI) plays a significant role in the economies of countries by providing many advantages. In generating financial support, FDI has a vital share in developing countries. It also creates employment opportunities, generates high amount of income and improve the development process of the country (Quazi, 2007). After 1990, a sharp rise in FDI inflows occurs in many countries (Barraclough and Unies, 2001).

Turkey is one of the most stimulatingly evolving countries on the globe. From 1980-2010 FDI inflows rose from 9.5% to 24.3% in case of Turkey. Hypothetically, Turkey is an attractive economy for international investors. After the liberalization, Turkey flops to appeal the considerable quantity of FDI. Foreign asset is essential to maintain the economic growth, to support its fiscal arrangement and to maintain financial and political stability in the country. This shows that the main problem is to attract a suitable amount of foreign investment. So that economic growth of Turkey must be ensured. Therefore, it is vital to observe the link between FDI and economy in case of Turkey.

In the previous studies, the link between FDI inflows and Turkish economy was debated along with the variables for instance imports, gross domestic product, exports, and production process. The existing literature illustrates the relation between FDI inflows and growth process was questionable. In current research, we use the factors that affect FDI inflows to the Turkey extended time period 1988-2018. In addition to that we use different proxies for the measuring determinants of the FDI inflows such as exchange rate, technology, labor force, and foreign trade.

The research question of this thesis is to determine the role of FDI in Turkish economy and try to find the factors that affect inward FDI movements. In order to analyze this from the international business perspective, at first international entry modes and importance of FDI is discussed.

Hence the research question is as follows:

- What are factors that affect the foreign direct investment in Turkey?

The purposes of this research are;

- To observe how different variables influence the FDI of Turkey.

- To observe the effect of economic growth, labor force, technology, exchange rate and foreign trade on the FDI of Turkey.

The significance of the study can be summarized as follows: FDI is the substantial component in the growth strategy of the Turkish economy. Advancement in FDI flows in the Turkish economy shows that there occurs a rapid progress in industrial sector of the economy and a stable economic and political situation exists in the country, as foreign investors want to invest in those developing countries having stable political and economic structure. International incorporation of Turkish economy is boosted with the increased in FDI flows. Increase in FDI increases the production process and exports of the country. Increase in production process upsurges the GDP of the country. Rise in GDP will augment the growth process and development of the economy.

The outline of the study is as follows: The entry modes are discussed in the next section with the framework of international business perspective. Then the importance of the Foreign Direct Investment and FDI flows are discussed. In the following chapter, review of studies which debated in relation to the discussion of the role of FDI on the economy of Turkey is presented. Next chapter will explain the sources of data collection, the description of variables and empirical technique applying on the dataset. In the fifth chapter, the empirical results are discussed with tables by applying the Ordinary Least Square method. In the last part, conclusion and policy recommendations are debated in view of the inclusive study.

2. FOREIGN DIRECT INVESTMENT AND MODE OF ENTRY

In this chapter, foreign direct investment will be discussed with the comparison of other modes of entries within the different aspects including socio-cultural, firm specific and business-related. In addition to that OLI model will be discussed.

2.1. Introduction

Foreign investors made specific strategies regarding their mode of entry which is necessary for their investments which they have to make in local countries. These companies show their concerns regarding the region where they are going to make investment and also their actions which they are going to do in the markets of these economies. But there comes an issue about the mode of entry in these markets i.e. through green field investment, through accumulation of capital stock or through company. The selection of entry method plays a significant role in the development process of these companies. In order to start foreign investment, investors must make two main choices that is whether to possess the entire or partial investment and whether to raise an innovative investment or assimilate to a surviving firm (Chang and Rosenzweig, 2001).

2.2. Difference Between Fully and Partial Ownership:

The entire possession might be achievable by green field investment or by accumulation of assets in the host economy. Green field investment represents the building of an entire new structure. While the stock of capital represents the acquisition of supervisory activity in a local organization.

Partial possession represents the collection of physical capital of two or more organizations in a joint and isolated group. Starting a new company is the only method permitted by the government to the external investors. But in certain cases, they allow foreign investors to use other modes but within a limit allowed (Chang and Rosenzweig, 2001).

2.3. Mode of Entry and Cultural Factors

There are many social and cultural aspects which affects the selection of entry method, as the dissimilarity of cultures among the economies increases the rate of uncertainty after the accumulation of capital stock in the local market. Due to this companies select those entry methods which has less amount of uncertainty i.e. green field investment or starting an innovative company (Kogut and Singh, 1988). Likewise, due to increases in cultural differences among the nations, investors prefer partial possession instead of full possession. Furthermore, increase in rate of risk and economic growth of the country also influences the mode of entry. Companies mostly avoid making large investments in those economies that have high rate of uncertainty. Mostly Japanese companies avoid investing in accumulation of capital stock in developing economies, as these companies prefer to invest in developed economies having low rate of uncertainty (Cho and Padmanabhan, 1995).

The selection of entry method is associated with the strategy of minimization of cost. As, investors want to invest in those economies where there is low of cost production, lower waged skilled workforce and increased opportunity of studying the knowledge base. With the increase in expertise of these firms, the choices of firms about transfer and creation of innovative skills may vary. The methods of entry which are beneficial in the starting process might not be adequate in the later situation (Cho and Padmanabhan, 1995). The figure 2.1 below summarizes the selection of entry.

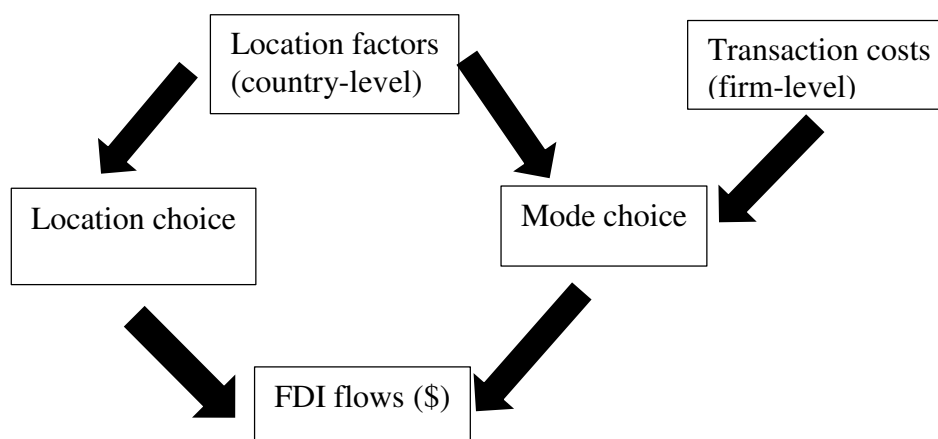


Figure 2.1 Selection method

Source: Ismail, 2017

2.4. Mode of Entry and Transactional Cost

Transactional cost is a significant factor which influences the mode of entry. Foreign investors avoid investing in the developed countries because if they make investment in those economies they have to face high transactional cost. Whereas if they invest in developing economies they face low transaction cost. As, in developing economies a huge amount of cheap and skilled labor force is present. Due to reduce labor cost, production cost will reduce which increases the profits of the investors. Minimization of transactional cost is also an important aspect in knowledge base view. For instance, if a foreign company has local competitive advantage in the production of a certain products, then in this scenario the company chooses the green field method in order to make investment. In this case it is the most effective method to be chosen. Due to local advantage of knowledge, firm transfer this knowledge towards the host economy because this process is associated with low transaction cost. The other modes of entry i.e. purchasing shares or establishing a new company is not appropriate or less effective because of their dissimilar motives and less absorptive capacity. These methods of entry are effective when motive of the company is to attain the expertise and to utilize the resources of the host economy (Brouthers, 2000).

2.5. Line of Business Aspects

Multinational corporates regularly enter into the host economy in a sequenced manner. Starting with the business line in which they have more competitive advantage in comparison with the host firm and with the passage of time this competitive advantage becomes lessen. Nowadays, due to the increase in entry of foreign companies in the host economies competitive advantage increases which lessens the burden of these organizations. Because with the passage of time companies gained more experience in supervising the host market, gain more skills and knowledge, making links with the local sellers and providing employment opportunities to the labor force. All this help the foreign firms to add themselves in the business line in which the competitive advantage of foreign firms is reduced over the host market firms. While initial entry could be inspired because of the exploitation of the local companies but the later entry could be made to overcome the advantage of host economy (Chang and Rosenzweig, 2001).

2.5.1. Competitive advantage relative to local firms

Companies who have highly skilled competitive workforce would select the method of green field investment during the selection of method of entry, while companies prefer the method of capital stock or start of an innovative company in the host economy when they want to attain the skills regarding the production of specific product, manufacturing in the investing economy. But if the investors have knowledge-based view then green field investment could be the most effective method of entry for the company in order to transfer innovative and new ideas from foreign economy towards the host economy. Firms choose the process of capital accumulation or joint venture when investors want to apply the local expertise and possessions on the production process. Therefore, it shows that if the host country is competitive enough in the international market then investors choose the method of green field investment instead of the other modes of entry (Hennart and Park, 1993).

The most effective mode of entry is green field investment in order to get the benefits of utilizing the home country knowledge base, while green field investment is favored initially by the organization. Because initially firms have not much information regarding the knowledge base of host economy, but as the firm enters in the foreign economy their preferences regarding green field investment may reduce. This is because of the confidence of firms in attaining the local expertise and gets the benefits from the investing economy (Hennart and Park, 1993).

2.5.2. Differentiated entry

The goal of foreign companies regarding their entrance in the developing region is to get the authority in the local market of host economy by exploiting them. Sometimes, firms desire to enter in the host economy with the purpose of attaining the skills and capabilities which are necessary for the firms to become competitive in the international world. Additionally, sometimes firms enter those economies with the aim of resource-seeking, as companies invest in host economies because of their new entry in this business, which makes them less competitive in the international market. So, in order to make them competitive these companies use the skills, resources and knowledge of host economy. In this case, foreign entry is the method of starting and expansion of companies.

In current eras, a noticeable case was Sony Corporation's 1989 possession of movies of Columbia. Simultaneously, getting movies of Columbia was a successive entrance in USA. Later organization of Sony also previously exists in US in many corporation positions. But it is not working in US in action movies. Obviously, differentiated foreign investment might be inspired by other motives instead of resource utilization. These motives are devalued foreign possessions or following multiple competitive strategies. Many companies of Japan enter in US, as possessions are preferred on green field investments. As, corporates need many input products which are complementary i.e. Information regarding production of certain product which becomes economical to manufacture instead of getting disembodied from the market (Brouthers and Nakos, 2004).

2.6. Socio-cultural Aspects

The green field investment might be reduced if corporates distinguish the socio-economic and cultural factors prevailing in the investing economy. Companies feel relaxed regarding the encounters of post possession incorporation or handling a foreign business companion after accruing the information of economy during primary investments. So, it was assumed that the partiality for green field investment over possession or business through companies of dissimilar cultural positioning will reduce as they accrue local knowledge (Brouthers, 2004).

2.7. Firm factors

Firms specific factors also has an important determinant for FDI modes. They will be categorized under the preceding foreign experience, path dependence and size of the firm and the business.

2.7.1. Preceding foreign experience

In order to get experience, it is not essential to make investment in a host market. Companies also have acquired experience with the help of their previous knowledge. As, companies export different products in the host market and also made investments in those

countries in the past. Consequently, corporates who are capable of selling more products in the foreign market might be assured of making green field investment in the host economy as compared to the corporates who sell fewer products in the foreign market. However, the sale of products in an international market plays an essential role in selection mode of entry. It is assumed that its significance will probably decline after the direct investment of the company in the host economy, as increased sales in the foreign market is like an indirect investment which afterwards is replaced by the direct investment experience in the host economy. When the company makes direct investment then the expertise and knowledge that it would attain will surpass the influence of previous foreign sales (Yu, 1990).

2.7.2. Path dependence

Regarding foreign choice of entry method, companies who select a method of its entry in the host market will always select that method for entry purpose. For instance, companies who enter in a host market by setting up a new business will always choose that method for entry purpose because it gives them useful experience regarding companion relationship in a business setting. So, companies always select those methods for entry purpose which appears to be beneficial for them. Likewise, companies who select the method of capital possession in a host market, have get experience through this method. So, all the time they choose the similar method for entry purpose. This concept of path dependence changes the concept of knowledge or experience (Chwo-Ming and Ito, 1988).

2.7.3. Size of firm and business

There are also certain additional aspects i.e. size of firm and business which influence the selection method for entry in the host economy. Size of corporation influences the selection the method of entry because corporate having large size is financially strong and hence has more capacity of financial possession. It is assumed that size of corporation and size of business unit would have encouraging influence on selection of possession method for entry in the host economy. Subsequently, capital possession of capital stock and setting up a new company can make the business more successful than the green field investment. Due to this for entry

purpose these two methods are always preferred when main goal of the investor is to speed up the business in host economy. So, it shows that growth rate of a business might be significantly influence the method of entry. It is assumed that, firms have to face more opportunity cost if the growth rate of a business is low. So, possession of capital and joint venture method is chosen on green field method. Additionally, the rate at which firms becomes liberalized, also influence the method of entry. With the increase in liberalization of industries, companies are also burdened to become liberalized rapidly. This is because of attaining the economies of scale and for stimulation motives. Therefore, because of this liberalization process, companies prefer the method of capital possession and joint ventures instead of greenfield investment (Larimo, 2003). Factors affecting the mode of entry are discussed in Figure 2.2.

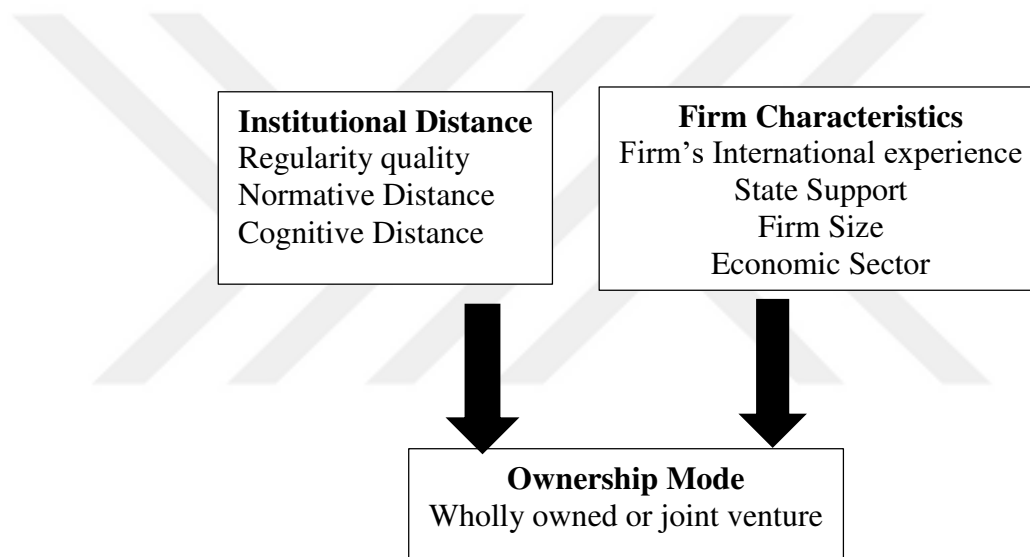


Figure 2.2 Factors affecting the mode of entry

Source: Ávila, Rocha, and Silva, 2015.

2.8. OLI Framework

The “OLI” model also referred as “eclectic” paradigm is widely used in explaining the Foreign Direct Investment flows and firm decisions about where to invest. The roots of the model originated from Dunning (1977). The paradigm defines the effects of the ownership, location and internalization (OLI) on the firms’ choice of investment.

As far as ownership advantages are concerned, certain firm specific characteristics may be beneficial some firms to operate abroad, hence their adoption process to a different environment becomes less costly. Location advantages are related with the location of investment and internalization advantages specify why firms choose FDI other than any other modes on entry such as joint venture, franchising or export.

Regarding the firm theory in international business perspective, the theory states that firms should develop characteristics to increase its competitive advantage including copyright, trademark or patent rights, in addition to the managerial skills.

In addition to that, the location of the country of the investment also is important. The macroeconomic conditions of the country as well as the market structure are important to get the desired profit levels. Furthermore, political and social environment of the location affect firms' decisions.

Lastly, internalization specify why firms choose FDI instead of export or licensing. In this sense, factors affecting firms' decision has also affect country's welfare. Since it is previously stated that FDI can be seen as a source of long term finance for developing countries and generating job opportunities for host countries, providing internalization advantage for firms may also increase welfare of the country (Oxelheim, et al, 2001, Neary 2009).

2.9. The Importance of FDI

FDI generally is the main tool to enhance the growth process of the economy. But in the middle income countries, FDI is the main process of hoarding physical investment and is also a convenient way of allocating human capital in the receipt state. Rise in physical and human assets will overall increase the rate of growth of the economy. Innovative technology transfer enhances the effectiveness of factors of production and can also decreases the technical gap among national and foreign organizations (Anwar and Nguyen, 2010).

Similarly, in both industrialized and emerged economies, FDI plays a role of vehicle as it transfers technology. It stimulates the process of this technical allocation and enhances the efficiency of the factors of production and helps in proper utilization of manpower. It is reasonable to describe that by proper allocation of innovative technology in the country enhances the labor force productivity which Increases the production process and raises the overall profit. So, this increase in returns in form of GDP will enhance the growth process of

the economy (Borensztein, De Gregorio, and Lee, 1998). FDI is considered as a main network in transferring modern technology towards the developing countries. Keeping in view the technological transfer has an encouraging and significant role in growth process of the economy (Ford; Rork; Elmslie, 2008) and (Yu; Xin; Guo; Liu, 2011).

According to some researchers, an increase in FDI inflows would increase the income gap. This means that this increase in income would definitely cause to increase poverty and income inequality in the country. A large share of income moving towards a specific sector of the economy would be one of the results that this Increase would cause. Increase in poverty and income inequality would hinder the economic process of the economy (Adams and Klobodu, 2017) ; (Babu; Bhaskaran; Venkatesh, 2016). Successfully, according to the estimated results of certain studies FDI is not advantageous for the receipt economy. FDI may have damaging impact or have no impact on growth process of economies (Temiz and Gökmen, 2014).

In the 21st century, the connection FDI inflows and growth process turn out a very important issue in both industrialized and emerging countries. Though, the growth process plays the role of backbone in the developmental process of any economy, as, it provides various aids in different sectors of the country. Furthermore, if the national income of the country is distributed equally in every sector of the economy then due to the rise in the development process of the economy, living standard of the population will be improved. With the enhancement in living standard of the population, collective demand of people will increase and in order to meet this increased demand production process should be increased which would in result creates new job opportunities.

Additionally, economic growth offers financial surplus by additional tax returns which could be used to fund the public developmental schemes. FDI provides assistance by investing in innovative projects, which could be helpful in maintaining and enhancing economic growth by increasing the supply process. The increase in production process would in result increase the profit and growth of the national corporations (Razmi and Refaei, 2013). Globalization is very important nowadays, because of the sharp movement of multinational corporations from developed economies towards the developing states, due to these MNCs bulk of FDI flows towards the developing countries. In developing economies, the surge in FDI inflows would rise the exports of the receiving economy which will in result increases the national income or earnings of the receiving economy (Belloumi, 2014).

The connection between FDI and growth process of economies is of much concern nowadays because of the globalization of production methods. In this method, the FDI assimilates developing economies in the international market. The rise in inward FDI in the economy improves the manufacturing process by transferring innovative technology in the receiving country. Due to the proper allocation of modern technology and unique techniques and skilled knowledge in the developing economies, the process of manufacturing in these economies has improved. The rise in manufacturing process due to increase in efficiency of factor of production that boosts up the production process in the country. Increase productivity has a significant and encouraging influence on growth process of the economy as GDP of the country will increase (Barro, 2001; Popescu, 2014; Suanes and Roca-Sagalés, 2015).

FDI perhaps offers significant benefits, as it provides constant investment, increases job opportunities, enhances productive capacity, transfers skilled knowledge, and provides easy process of entree to the global market and trade openness in the receiving economy. Exports of the host country would increase due to the increase in production process due to which foreign earning of the economy would increase which in result would raise the growth process in the economy. Also there are some disadvantages of FDI like Risk from Political Changes, Negative Influence on Exchange Rates, Higher Costs, and Hindrance to Domestic Investment (Iamsiraroj and Ulubaşoğlu, 2015).

Generally, it was considered that the connection among Foreign Direct Investment and the growth process of economies is uncertain (Görg and Greenaway, 2004).

During the previous few eras, there occurs a quick rise in FDI flows all over the world. FDI is measured as a significant factor in enhancing growth process so as to fill the financial gap of developing economies. Furthermore, it creates job opportunities, transfer modern technology and enhance the economic growth (Alam, Raza, Shahbaz, and Abbas, 2016); (Quazi, 2007). In 1980, Global FDI flows was 54.11 billion US\$ then it became 207.7 billion US\$ in 1990. In 2000, global FDI flows became 1.402 trillion US\$. After 2001, a fall in FDI flows occurred and in 2003, it became 565.7 billion US\$. In 2007, it again increased to 2100 billion US\$. Due to the financial crisis, 1.409 trillion US\$ a fall in FDI flows occurred in 2010. In 2012, FDI flows fell to 1.330 trillion US\$ (Anyanwu and Yameogo, 2015). In 2017, the global FDI flow was documented is \$1.8 trillion (Trade and Development, 2017).

West Asian economies are considered as low and middle-income economies. In the developing economies, the process of growth generally relies on the amount of investments

attracting in the country. In year 2015, 2016 and 2017 the total proportion of FDI flow in west Asia was \$30150 million, \$30759 million and \$25506 million (Trade and Development, 2017).

Turkey is the biggest country located in West Asia. In this country there was an economical turning point in turkey in 1980. After 1980, there occurs a sharp rise in FDI inflows due to liberalization of capital movements, denationalization, unions, cooperative projects and increased sales. In Turkey, FDI is the main factor and it plays an important role in capital movements or technology transfer Though, the government of Turkey made certain policies to attract FDI inflows in the country but it is still in connection with GDP, FDI inflows never increased to more than 0.5% in 1990 (Gökmenoğlu and Taspinar, 2016).

Turkey is a main industrial base for many MNCs, though such progress had not brought a consistent rise in the inflow of investment. Hence, inward FDI in Turkey became deteriorate from the last 15 centuries whereas in the same era global FDI could rise 12% as compared to turkey. As compared to other developing economies, Turkey has a lower rate of inward per capita investment than China (706 US\$). In case of per capita GDP Turkey also lagged the OECD countries. The European Union countries have a huge share of operating MNCs i.e. 69% then the Turkish economy comes after. As, Germany has 1084 operating MNCs, UK has 413 firms, Netherland has 449 firms and Turkey has 393 operating MNCs. Turkey had almost equivalent per capita income as compared to these economies but still above figures show that Turkey is not promoting globalization as its competent economies which have the same level of income levels as Turkey. In 2000, FDI inflow in Turkey had decreased to 0.08%. In developed economies, the amount of FDI inflow was 2,245 US\$, in developing economies it was 194 US\$ and in case of turkey it was 92 US\$. This shows that FDI inflows in Turkey are below the global average and developing economies average. The level of FDI inflow in Turkey is almost like the African and central Asian economies (Alici and Ucal, 2003).

In 2004, Turkey used to attract more inward FDI than other developing economies due to its financial stability and development in manufacturing process. So, rise in inward FDI increases the GDP of the country which overall enhance the progress and development of Turkey. Over previous 15 centuries, Turkey had strikingly enlarged amount of inward. In 2016, it attracted 12.3 billion US\$ of FDI flows in the country. In case of FDI flows, Turkey tiled its place as the most dynamic economy. In the extent of joint inspiration and to save foreign investments, Turkey contracted seven foreign investment treaties (Cambazoglu and Karaalp, 2014); (Trade and Development, 2017).

Table 2.1 FDI Flows in Million\$

Year	2014	2015	2016	2017
Turkey	12739	17717	12942	10864
West Asia	31458	30150	30759	25506
Developing Countries	685292	744032	670158	670658
World	1338532	1921306	1867533	1429807

Source: Trade and Development, 2017.



3. REVIEW OF LITERATURE

There are several numbers of studies in this are to examine the relation and importance of FDI for the country level.

To start with there are studies that covered the subject of how FDI affect economic growth. In this respect, Obwona (2001) analyzes different factors of FDI which influence the growth process of Uganda. In order to enhance the foreign investment in an economy government of developing world provides tax relaxation and different inducements. Poor infrastructure and no implementation of law and order in an economy will reduce the foreign investment in the economy itself. In this study time series data of Uganda economy was gathered so as to analyze the results. The stage least square procedure was operated on the annual time series statistics gathered upon the time interval 1981-1995. The variables applied in this examination are GDP, trade openness, inflation, debt service, foreign aid and FDI. Calculated results illustrate that an increase in foreign investment will enhance the GDP of Uganda. Irrespective of tax relaxation and incentives, better institutional quality and infrastructure development play a significant part in enhancing foreign investment in the country, which in result surges the rate of progress of the economy.

Reichert and Weinhold (2001) examine the influence of foreign investment on economic growth in case of 24 developing economies. According to the studies rise in FDI enhances the growth of developing economies when there are technological spillovers. As transfer of technology toward these developing economies, the skills and capabilities of working class will improve. Increase in technological innovation in the country raises the process of production and in return upsurges the profits of the companies and organizations. Increase in profits raises the GDP and puts the economy on the path of growth and development. The Granger causality test was applied on the panel figures, gathered over the time duration 1971-1995. This study contains variables i.e. GDP, economic growth, inflation, exports, gross domestic investment and FDI. Evaluated results represent that FDI inflows positively influence the GDP of the economy and is statistically significant.

Makki and Somwaru (2004) state that whether progress of economies is influenced by foreign direct investment and trade openness. FDI is the main accelerator which completely impacts the developmental course of countries. Through FDI there occurs a movement of innovative technology from advanced economies in the direction of the emerging world. An

increase in the accumulation of up-to-date technology augments the long-term growth procedure of the country. Also an increase in FDI enhances the domestic investment in the receiving economy. It increases skilled human capital and improves institutional quality in the developing world. In this study cross-country data of 66 developing economies was taken in order to analyze the results. The Seemingly unrelated regression was operated on the panel statistics gathered upon the time interval 1971-2000. The variables applied in this examination are trade, human capital, GDP, domestic investment, inflation, tax rate and FDI. Calculated results illustrate that the increase in FDI encourages the domestic investment, trade liberalization and enhances the human capital stock in the economy. Better institutions attract more investment from the international investors. Decrease in inflation, tax and government expenditures surges the growth process of an economy.

Li and Liu (2005) state that whether economic progress of economies is influenced by the foreign investment. FDI is considered as a complex package of skills, innovative ideas and techniques, capital stock and advance technology. Surge in FDI raises the manufacturing procedure in an economy. Due to the intensification of manufacturing process, profit of the industries increases. Increase in revenue increases the domestic investment. Increase in investment increases the size of market. Due to increase in market size more foreign investors attract towards these economies. FDI encourages the process of growth in those economies that are export oriented, as a rise in exports raises the foreign exchange of the developing economies which helps in the growth process a further development of the country. In this study panel data of 84 economies was gathered so as to analyze the results. The simultaneous equation method was operated on the panel statistics gathered upon the time interval 1970-1999. The variables applied in this examination are GDP, population growth, FDI, capital stock, education, rate of inflation and trade openness. Calculated results illustrate that inward FDI encourages the growth process of developing economies.

Hansen & Rand (2006) investigate the association among external investment and growth procedure of economies. FDI plays a significant part in providing an improved financial setting in an economy. Developing economies mostly face the problem of budget deficit, poor institutional quality and decreased profit rates which make these countries incompetent in the international market. FDI plays a key part in enhancing profit rate of these economies along with the increase in stock of physical capital, better education and technical training. In this study panel data of 31 developing economies was gathered so as to analyze the results. The fixed effect method was operated on the panel statistics gathered upon the time interval 1970-

2000. The variables applied in this examination are GDP and FDI. Calculated results illustrate that an increase in foreign direct investment encourages the growth process of an economy, as, due to increase in foreign investment, domestic investment in an economy will also increase which increases the market size in an economy and make it self-competent in the international market.

Cambazoglu & Karaalp (2014) state that if FDI has any effect on growth process of Turkey. For the growth of any economy production procedure performs a central role. Nowadays the increase in liberalization and integrative actions of MNCs in the receiving country intensifies the amount of external asset. FDI is considered as a chief element in the growth procedure of an economy. It is a key source of external finance available for the emerging countries. With the purpose of attracting foreign asset in the developing countries, foreign investors are offered low rate of taxes or tax exemptions. The Granger causality test was used on the time series data, gathered over the time duration 1987-2009. This study contains variables i.e. GDP, CO2 emission, and FDI, and estimated results represent that foreign trade have encouraging effect on FDI and GDP of turkey but it is not significant.

Kargi (2014) in his study looked at the relation between population and economic growth. Although the relation was acknowledged, the change in labor force participation as population grows constitute a paradoxical issue. The problem emerged as "jobless growth" and "unskilled growth." Kargi (2014) searched for an answer to this problem of why labor force participation remains lower or increasing at a slower rate than the expected increase as a result of positive relation between GDP and population growth. The result of the study shows that the low rate of female participation to the labor force and reduction of job opportunities in agriculture sector. Hence, this study explains "jobless growth" by stating that increases in economic growth rates are not in line with the labor force market data. As a result, economic growth is not increasing employment.

Iamsiraroj and Ulubaşoğlu (2015) observe that whether trade openness and FDI influxes influence the growth process of 140 economies. When foreign investors invest in a host country then a large number of funds are available to the host country. This will lead to an increase in investments that raises the production process in the country which lead the exports of country to grow. Increase in exports will increase the inflows of foreign earning in the country. Absorptive capacity of the country would increase due to the increase in trade liberalization. The Ordinary least square technique was used on the panel figures, gathered over the time duration 1970-2009. This study contains variables i.e. GDP per capita, FDI, fiscal progress and

trade openness. Evaluated outcomes represent that foreign trade positively influence the FDI arrivals in an economy and it is significant.

Pegkas (2015) analyzes that how FDI encourages growth process in Eurozone economies. Investment is a key instrument in enhancing growth process. As, due to the increase in foreign investment innovative ideas, skills, better techniques and procedures are also transferred towards the receiving economy. Foreign investment also enhances the industrial progress in the economy. It provides funds in order to enhance the internal investment of an economy. In developing economies mostly outdated technology is used in the production process. FDI does not only increase the capital stock but also transfers an improved quality of capital towards the developing world. Macroeconomic stability and decrease in market imperfections are the key component which influences the inward FDI in an economy. In this study time series data of Uganda economy was gathered so as to analyze the results. The ordinary least square procedure was operated on the panel statistics gathered upon the time interval 2002-2012. The variables applied in this examination are GDP and FDI. Calculated results illustrate that inward FDI stock is a main component of enhancing economic progress in Eurozone economies. The government of Eurozone economies formulates less restrictive strategies, decreases the budget deficit and maintains a secure environment in these economies in order to make these economies attractive for the foreign investment.

According to Gökmenoğlu and Taspınar (2016), critically examines the association between consumption of energy, FDI and growth process in Turkey. FDI inflows do not only enhance the productivity and economic performance of the country but it can also play a significant role in transferring skills, modern technology, enhances competition and inspiring innovation in the receiving country. Due to FDI influxes job creation will increase in the receiving economy. The Granger Causality test was used on the statistics, collected over the time duration 1974-2010. The variables taken in this research are CO₂, GDP, energy consumption, and FDI. Estimated results show that growth in GDP decreases the environmental pollution in the economy and enhances the FDI inflows and put the country on the path of economic growth. Thus, an economically stable country attracts more foreign investors.

Alvarado, Iñiguez, and Ponce (2017) examine that whether growth process of USA is affected by FDI inflows or not. An increase in FDI in the country means that there occurs integration of technology in the receiving economy due to the existence of foreign investment. An increase in the transfer of modern technology enhances the productivity in that receiving

country which overall enhances the GDP of the country. In this study panel data of 19 economies of Latin American countries was taken in order to analyze. The Ordinary Least Square technique which was applied on the panel data composed over the time duration 1980-2014. The variables used in this study are GDP, capital formation, workforce and FDI. Estimated results show that in high income economies, Technology enhances the process of production and positively affect the productive capacity of these countries. While in middle income economies has an irregular affect. In case of lower income economies, it has a negative effect on production process of these countries. These outcomes express that it is not an important issue to enhance the FDI inflows and economic progress of countries.

Sothan (2017) inspects that whether growth process of Cambodia is stimulated by the FDI inflow in a country or not. Estimated results show that economic progress in Cambodia is mainly reinforced by FDI inflows. The Granger causality test was applied on the time series figures, collected over the time duration 1980-2014. This study contains variables i.e. FDI stocks, investment, manufacturing output and economic growth. Surge in FDI influxes augments the development of capital in the form of advanced and modern technology in the receiving country. Increase in innovative technology surges the production process in the receiving country. Production cost will also decrease due to the use of modern technology in the manufacturing method which raises the profit of the producers. An increase in production process accelerates the growth of the economy.

According to Simionescu, Lazányi, Sopková, Dobeš, and Balcerzak (2017), critically analyses the factors which affects the economic growth in V4 (Slovak Republic, Poland, Czech Republic, Hungary) economies. It is observed that globalization of the economies in the international market will improve the economic condition of these economies as globalization positively affects the social benefit. Increase in process of industrialization in these states will appeal the external depositors in these countries. These raise the process of production and GDP of the economies. Increase in productive capacity performs a key part in enhancing the development and growth process of the economies. The Bayesian generalized ridge technique was applied on the panel data, collected over the time duration 2003-2016. This study contains variables i.e. GDP, employment, labor force, inflation, public expenditure and FDI. Estimated results show that FDI has positive impact on the growth and development process of these economies.

Another line of studies that related our subject those analyze the determinants of the FDI and how different factors affect FDI flows. According to Ateş and Bolukbas (2011), not only

developing countries but also developed countries try to attract FDI flows to get benefit as a long term finance opportunity. Especially after 1990s, the competition become much fiercer to get more investments. In this respect to determine factors that affect FDI flows gain more importance. In their study, economic factors such as size of the market, labor costs, interest rates, economic growth rate, location, infrastructure, and taxes affect FDI movements in Turkey. As a result, the competitiveness of Turkey was also investigated.

Mutafoglu (2012) observes the influence of external investment and CO₂ on the GDP of Turkey. FDI increase the amount of modern technology in the host economy. Increase in technological innovation raises the production process in these economies. People will easily adopt this transfer of modern technology as it helps workers in increasing their knowledge and upgrading their skills which further enhances the process of production. FDI also makes known to different organization practices and improved structural measures. The VAR technique was applied on the panel data, collected over the time duration 1987-2010. This study contains variables i.e. GDP, import, export and FDI. Estimated results show that an increase in technology spillovers has a negative effect on environmental quality. So, attracts in those economies having low environmental quality.

Payaslioglu and Polat (2013) searched the effect of the level and change of real exchange rate on FDI flows into Turkey for the years between 2004 - 2012 with GARCH model and Markow Regime Switching models. They find insignificant relation between level and volatility of real exchange rate on FDI inflows into Turkey for examined period. On the other hand, policy interest rate Euro, confidence index for real sector and new investment incentive system have significant and positive effect on FDI inflows. Findings also suggest a negative impact of exchange rate and its volatility on FDI inflows.

Masood, Ilyas, and Rehman (2013), investigated factors that affect FDI movements towards Pakistan. They analyzed whether GDP per capita, labor force, openness, and tax on international trade have an impact on the FDI inflows by using Johansen co-integration test by using the data for Pakistan between 1975 to 2005. Results state that the effect of GDP on FDI is significant and positive while labor force and taxes are negatively affect FDI with statistically insignificant relation. Openness has positive and significant effect on FDI.

Blonigen and Piger (2014) analyze the factors which affect the foreign direct investment in an economy. Foreign stakeholders desire to invest in those economies where they have to face low production cost in their manufacturing process. As, in developed economies wages of

the skilled labor force are very highly compared to developing ones. Lower wage working force is another factor which attracts foreign investment in the host economy. In this study cross-country data of 66 developing economies was taken in order to analyze the results. The Bayesian statistical procedure was operated on the cross-country statistics gathered upon the time interval 2000. The variables applied in this examination are GDP, trade liberalization, skilled workforce, infrastructure and quality of institutions. Calculated results illustrate that increase in trade liberalization due to increase in foreign investment in an economy will encourage the long-term growth process by raising the export product of the economy. Together with skilled workforce, well organized infrastructure and implementation of rules and laws in an economy will also play a substantial part in improving the developmental procedure of the country.

Bilawal (2014) states that how exchange rate influences the economic performance in case of Pakistan. Exchange rate performs a substantial part in the development process of a country, as it has a direct influence on the GDP and FDI influxes in the state. Increase in exchange frequency will devalue the currency of host country. Decrease in exchange rate attracts the external depositors to invest in that economy. Due to decrease in exchange rate exports of the economy becomes low-priced, which in result enhances the demand of exports in the foreign market and this increase in demand will in return increase the performance and productivity of that country. Increase in productivity at last increases the GDP and put the economy on the path of economic growth. The Ordinary Least Square technique was applied on the time series data, collected over the time duration 1982-2013. This study contains variables i.e. FDI and exchange rate. Estimated results show that exchange rate negatively affects the GDP and FDI inflows in the country.

Polat and Payashioğlu (2014) analyze the factors affecting foreign direct investment into the manufacturing subsectors in Turkey for the period of 2007 to 2012. They found that turnover indices and new investment incentives that started in 2009 positively affected FDI inflows to Turkey.

Kalyoncu, Tuluce, and Yaprak (2015) also analyzed the factors affecting FDI inflows to Turkey for the years between 1975 to 2012. They used unit root and Johansen co-integration tests to analyze the determinants of FDI for Turkey. The econometric model incorporates variables FDI, GDP, openness, export, inflation rate and energy production. They state that GDP and exports positively affect FDI. However inflation rate has negative impact on FDI.

Anyanwu and Yameogo (2015) examine the factors which play a significant part in driving FDI towards developing economies. Increase in FDI helps in increasing the saving rate, as an increase in investment raises the profit of the firms. Due to increase in profits firms raises the income of their employees. Increase in income will have positive impact on the saving rate. Similarly, due to increase in income more workers are attracted to get the job. So, increase in FDI inflows creates the employment chances in the developing economies. FDI attracts towards developing economies because of their different structures and settings i.e. less rules and regulations, stock of natural resources. Low cost of transportation, lower waged skilled labor and ethnic factors etc. In this study panel data of West African economies was gathered so as to analyze the results. The ordinary least square technique was operated on the panel statistics gathered upon the time interval 1970-2010. The variables applied in this examination are GDP, internal investment, natural resources, life expectancy, foreign aid, trade openness, exports, domestic credit and FDI. Calculated results illustrate that trade openness, natural resources, previous year FDI and domestic investment encourages the inward FDI in West Africa, while there is a negative link among foreign aid, life expectancy and economic growth of an economy.

According to Cambazoglu and Gunes (2016), looked at the relationship between FDI inflows in Turkey and the real exchange rate level for the period from 2007 to 2015 by using a bound test co-integration approach. Findings show the co-integration relationship between the exchange rate level and FDI inflows in Turkey. According to their results, if real exchange rate appreciates the foreign direct inflows decreases in Turkey.

Binh, Thanh, Schinckus, and Canh (2019) searched the effect of the internal economic policy uncertainty and the global uncertainty on net FDI inflows for 21 countries for the years from 2003 to 2013. They employed two-stage technique of linear panel data models. They found that, internal economic policy uncertainty negatively affects FDI inflows. In addition to that, if they introduced world uncertainty to domestic uncertainty, they found a positive effect on the FDI inflows into the host country.

There are other studies that deal with relations among different factors. Xu (2000) examines the impact of diffusion of technology on the production process of MNEs in case of developed and developing economies. Most of the developing and low-income countries do not have plentiful human assets which is appropriate to absorb the inflow of technology. In developing economies mostly human capital is less skilled as compared to the developed countries. This unskilled workforce does not have the capability to understand the technical

expertise regarding inflow of modern technology. The 2SLS technique was applied on the panel data taken over the time period 1966-1964. Estimated outcomes represent that diffusion of technology positively influences the FDI inflows of developed economies. While in case of developing and low-income economies inflow of technology negatively influences the FDI inflows.

Liu, Burridge, and Sinclair (2002) examine the link among trade openness, inward investment and progression of growth in case of Chinese economy. Surge in external investment in the receiving country not only spurs the production course in the economy but also raises the volume of trade in the host economy. Surge in external investment increases the production procedure in the economy. Surge in manufacturing procedure encourages the exports of the economy and reduces its imports. A rise in exports will increase the foreign exchange in the economy which spurs the economy towards a stabilize growth process. In this study time series data of Chinese economy was gathered so as to analyze the results. The Granger Causality technique was applied on the time series data gathered over the time duration 1981-1997. The variables used in this study are GDP, exports, FDI and imports. Calculated results illustrate that there is a positive link among FDI, foreign trade and growth process of Chinese economy.

Alici and Ucal (2003) analyze the influence of globalization on the financial development in case of Turkey. Researchers examined that liberalization of Turkey in the global market makes it appealing for the external depositors to invest in Turkey. Intensification of liberalization increases the exports of the country. Increase in exports will increase the productive capacity of an economy which in return enhances the performance and growth of the country. Mostly countries have poor level of performances due to less inflow of investment and capital in the country. The Granger causality test was used on the time series statistics, collected over the time duration 1987-2002. This study contains variables i.e. GDP, growth and FDI. Estimated results show that economic growth of Turkey relies on the amount of arrival of foreign capital in the economy.

Aghion, Braun, and Fedderke (2008) analyze the consequence of competition on productivity in case of South Africa. Africa has a high rate of mark-ups. Due to the increase in mark-ups productivity would reduce as the increase in mark-ups causes the decrease in competition. The Ordinary Least Square technique was applied on the panel data that was composed over the time duration 1970-2004. The variables used in this study are competitive pressure and productivity growth. Evaluated outcomes show that increase in competition

positively influence the production process in case of Africa. As, if there occurs 10% decrease in mark-ups the productivity will increase by 2.5% annually in case of Africa.

Wang (2009) examines that how sectoral FDI affects the production process in Asian economies. FDI is an important tool for the movement of physical assets i.e. technology, skilled human capital and nontangible assets i.e. expertise, advanced techniques, new designs etc. Most of the growth in an economy due to increase in FDI is in production sector. Mostly FDI in Asian countries is attracted in financial, services, manufacturing and agricultural sector. In literature it was analyzed that FDI which was attracted in all these sectors would have analogous effect on the development process of economies. In this study time series data of 12 Asian countries was gathered so as to analyze the results. The fixed effect procedure was operated on the panel statistics gathered upon the time interval 1987-1997. The variables applied in this examination are GDP and manufacturing FDI, agricultural FDI, financial FDI, services FDI, labor force and domestic investment. Calculated results illustrate that FDI attracts in the production sector positively influence the financial development of an economy, while FDI in the other sectors will not contribute in the growth process of an economy.

Azman-Saini, Law, and Ahmad (2010) focus on the progress of financial market of the economy and analyze the connection among FDI and growth process. As, due to increase in efficiency and growth of financial markets risk involve regarding investments will reduce. Consequently, it enhances the FDI inflow in that country. Threshold regression was applied on the cross-country data which was collected over the time duration 1975-2005. This study contains variables i.e. GDP per capita, FDI, population, investment to GDP ratio, human capital and financial market indicators. Estimated outcomes express that FDI increases growth procedure of the economy if financial growth increase after the threshold point. If financial market does not make any progress after that threshold point that FDI not influence the growth process of the economy. Government should intervene through certain strategies and policies not only to enhance the inward movement of FDI but also for the growth and expansion of financial markets.

Anyanwu (2012) Argued with the availability of more working labor force, productivity level of the firms will increase. FDI inflows attracts in those developing countries where a cheap labor force is present. Due to inflow of FDI with the increase in investment there also occurs inflow of technical skills and modern technology due to which production process will increase. An increase in production process will raise the profit and wages of the workforce.

Also an increase in income and skills of workers enhances the overall GDP of the country and the economy on the path of economic growth.

Tansil, Ozdemir, and Aksoy (2015) searched the relationship between labor force participation rate and unemployment rate in Turkey by using co-integration analysis. The results show that there is no long-run relationship between labor force participation and unemployment rates in Turkey.

Abdouli and Hammami (2017) examine the effect of accumulated capital, FDI and environmental quality in MENA countries. People of the economies with increased growth rates have high standard of living if income was distributed among people impartially. Increase in incomes provides more job opportunities in the country. Also an increase in growth rates tax increases the revenue will which helps to fund the public investments which leads to an Increase in the accumulation of modern technologies in the country. Increase in technological innovation will in result rise in growth process and profit of the firms. The Ordinary Least Square was used on the panel data, collected over the time duration 1990-2012. This study contains variables i.e. GDP, FDI, CO2. Evaluated outcomes represent that there is causal connection among FDI influxes and development process of the country.

Varol (2017) looked at the determinants of female labor force participation in Turkey. The study used binary logit model by employing the data from the World Values Survey of 2007. The study shows that labor force participation increases with the education, income, and being chief wage earner in the household. As far as age is concerned, it has positive effect till mid-30s, however after the age of 30s it turns to negative. being married and having children have also negative impacts on the labor force participation women as expected.

Table 3.1 Summary of Literature Review

Author name and publishing Year	Data and time period	Region	Variables	Methodology	Results
Xu (2000)	1966 - 1980	Developed and developing economies	Human capital, GDP, FDI, work force and production process	2SLS technique	Represent that diffusion of technology positively influences the FDI inflows in developed economies. While its negative in case of developing and low-income economies.
Obwona (2001)	1981-1995	Uganda	GDP, trade openness, inflation, debt service, foreign aid and FDI.	Stage least square procedure	Illustrate that an increase in foreign investment will enhance the GDP.
Nair-Reichert and Weinhold (2001)	1971-1995	24 developing economies.	GDP, economic growth, inflation, exports, gross domestic investment and FDI.	Granger causality test	Represent that FDI inflow positively influences by the growth process of the economy and is statistically significant.
Liu, Burridge, and Sinclair (2002)	1981-1997	Chinese economy	GDP, exports, FDI and imports.	Granger causality test	Illustrate that there is a positive link among FDI, foreign trade and growth process of Chinese economy.
Alici and Ucal (2003)	1987-2002	Turkey	GDP, growth and FDI.	Granger causality test	Show that economic growth of Turkey relies on the amount of arrival of foreign capital in the economy.
Makki and Somwaru (2004)	1971-2000	cross-country data of 66 developing economies	Trade, human capital, GDP, domestic investment, inflation, tax rate and FDI.	Seemingly unrelated regression	The increase in FDI encourages the domestic investment, trade liberalization and enhances the human capital stock in the economy. Decrease in inflation, tax and government expenditures surges the growth process of an economy.
Li and Liu (2005)	1970-1999	Panel data of 84 economies.	GDP, population growth, FDI, capital stock, education, rate	Simultaneous equation method	Illustrate that inward FDI encourages the growth process of developing economies.

			of inflation and trade openness.		
Hansen and Rand (2006)	1970-2000	panel data of 31 developing economies	GDP and FDI.	Fixed effect method	Illustrate that an increase in foreign direct investment encourages the growth process of an economy.
Aghion, Braun, and Fedderke (2008)	1970-2004	South Africa	Competitive pressure and productivity growth.	Ordinary Least Square technique	Show that increase in competition positively influence the production process.
Wang (2009)	1987-1997	12 Asian countries	GDP and manufacturing FDI, agricultural FDI, financial FDI, services FDI, labor force and domestic investment.	fixed effect procedure	Illustrate that FDI attracts in the production sector positively influence the financial development of an economy.
Azman-Saini, Law, and Ahmad (2010)	1975-2005	cross-country data	GDP per capita, FDI, population, investment to GDP ratio, human capital and financial market indicators.	Threshold regression	Express that FDI increases growth procedure of the economy if financial growth increases after the threshold point.
Ates and Bolukbas (2011)	After 1990	Turkey	market size, labor costs, exchange rates, interest rates, economic growth rate, geographic location, and infrastructure, taxes	Panel data	The factors attracting FDI and affecting the competitiveness of Turkey.
Mutafoglu (2012)	1987-2010	Turkey	GDP, import, export and FDI.	VAR model	Show that an increase in technology spillovers has a negative effect on environmental quality and FDI inflows.

Anyanwu (2012)	1996-2008	53 African countries	FDI, urban population, GDPPC, openness, Fiscal development, Inflation, Exchange Rate, Infrastructure, Human Capital, GDP Growth, Corruption, Regulatory Quality, Rule of Law, Oil exporters, Regions.	OLS, GMM e and feasible generalized least square (FGLS) technique	Represent that increase in FDI has encouraging impact on market size, openness, rule of law, foreign aid, and agglomeration. While there is negative relationship between financial development and FDI inflows.
Masood, Ilyas, and Rehman (2013)	1975 - 2005	Pakistan	GDP per capita, Labor Force, Openness, and Tax on International Trade.	Johansen Co-integration approach	Show that the GDP has positive and insignificant effect on foreign direct investment. The labor force is negatively associated with FDI and this relation is insignificant.
Payaslioglu and Polat (2013),	2004 - 2012	Turkey	exchange rate level and its volatility, inflation, transportation, communicant, interest rate Euro	GARCH (1 1) and Marko Regime Switching models	Negative effect exchange rate and its volatility on FDI inflows and it is non-significant effect on FDI inflows into Turkey.
Cambazoglu and Karaalp (2014)	1987-2009	Turkey	GDP, CO2 emission and FDI.	Granger causality test	Represent that foreign trade and FDI have encouraging effect on economic progress of Turkey.
Polat and Payaslıoğlu (2014)	2007-2012	Turkey	FDI, market size, manufacturing process, and GDP	Panel data	Strong evidence is found that turnover indices and new investment incentives introduced in 2009 have a positive impact on FDI.
Bilawal (2014)	1982-2013	Pakistan	FDI, exchange rate.	Ordinary Least Square technique	Show that exchange rate negatively affects the GDP and FDI inflows in the country.
Blonigen and Piger (2014)	2000	66 developing economies	GDP, trade liberalization, skilled workforce, infrastructure and quality of institutions.	Bayesian statistical procedure	Illustrate that increase in trade liberalization due to increase in foreign investment in an economy will encourage the long-term growth process by raising the export product of the economy.

Iamsiraroj and Ulubaşoğlu (2015)	1970-2009	140 economies	GDP per capita, FDI, fiscal progress and trade openness.	Ordinary least square technique	Outcomes represent that foreign trade positively influence the FDI arrivals in an economy.
Pegkas (2015)	2002-2012	Eurozone economies.	GDP and FDI	ordinary least square procedure	Illustrate that inward FDI stock is a main component of enhancing economic progress in Eurozone economies.
Kalyoncu , Tuluce , and Yaprak (2015)	1975 – 2012	Turkey	(FDI), (GDP), openness, export & import, inflation rate, energy production, labor force	ARDL Test	Show that there is a positive effect of GDP, OPEN, EP and Labor on FDI. But an inflation rate effects on FDI is negative.
Anyanwu and Yameogo (2015)	1970-2010	West African economies	GDP, internal investment, natural resources, life expectancy, foreign aid, trade openness, exports, domestic credit and FDI.	ordinary least square technique	Illustrate that trade openness, natural resources, previous year FDI and domestic investment encourages the inward FDI in west Africa
Gökmenoğlu and Taspınar (2016)	1974-2010	Turkey	CO2, GDP, energy consumption, and FDI.	Granger Causality test	Show that growth in GDP decreases the environmental pollution in the economy and enhances the FDI inflows.
Cambazoglu, and Gunes (2016)	2007 – 2015	Turkey	Exchange rate level and FDI	ARDL Test	The estimation results showed that real exchange rate appreciation causes a decrease in the foreign direct inflows.
Alvarado, Iñiguez, and Ponce (2017)	1980-2014	USA	GDP, capital formation, workforce and FDI.	Ordinary Least Square technique.	In high income economies, Technology positively affects the productive capacity of these countries. While in middle income economies has an irregular affect. In case of lower income economies it has a negative effect on production process of these countries.
Simionescu, Lazányi, Sopková, Dobeš, and Balcerzak (2017).	2003-2016	V4 (Slovak Republic, Poland, Czech Republic,	GDP, employment, labor force, inflation, public expenditure and FDI.	Bayesian generalized ridge technique	Show that FDI has positive impact on the growth and development process of these economies.

		Hungary) economies.			
Abdouli and Hammami (2017)	1990-2012	MENA countries	GDP, FDI, CO2.	Ordinary Least Square	Represent that there is causal connection among FDI influxes and development process of the country.
Sothan (2017)	1980-2014	Cambodia	FDI stocks, investment, manufacturing output and economic growth.	Granger causality test	Show that economic progress in Cambodia is mainly reinforced by FDI inflows.
Varol (2017)	2007	Turkey	level of education, high level of income, and being chief wage earner in the household, ageing of women	binary logit model	High level of education, high levels of income, and being chief wage earner in the household have a positive impact on the labor force participation. While the ageing of women has a positive impact.
Binh, Thanh, Schinckus and Canh (2019)	2003-2013	21 economies	economic policy uncertainty, world uncertainty, GDP	Two stage technique	The growth rate of domestic EPU adversely affects FDI inflows

3.1. Theoretical Framework

The purpose of this research is to explore the role of foreign direct investment in Turkish economy and try to understand the factors that affect foreign direct investment inflows in association with economic indicators.

Rise in FDI movements in the country improves the manufacturing process by transferring innovative technology to the receiving country. Due to the proper allocation of modern technology and unique techniques and skilled knowledge in the developing economies, the process of manufacturing in these economies has improved. Increase in manufacturing process due to increase in efficiency of factor of production boost up the production process in

the country. Increase in efficiency has substantial and encouraging influence on growth process of the country as GDP of the country will increase. (Suanes and Roca-Sagalés, 2015).

International trade or foreign trade is positively affecting the FDI, because it represents a significant share of gross domestic product, due to exchanges of capital, goods, and services through international borders or territories. It also used to remove the poverty and increasing the production in any country (Hansen and Rand, 2006).

Increase in corporate taxes negatively influence the FDI influxes because external investors avoid investing in those countries having high rate of taxation because increase in taxes will reduces the profit of the external depositors due to increase in cost of manufacturing method (De Mooij & Ederveen, 2003). Since tax rates were not changed for the selected time period for Turkey, this variable is not included into the study.

Exchange rate is another variable affects the GDP and FDI inflows in the country. The change in exchange rates will affect the competition in the trading sector of economies. Decrease in exchange rate will decline the prices of exported goods and also it would raise the export demand in the world marketplace. The export volume of those economies would increase which produces the cheap products. Increase in exports will increase the GDP and put the economy on the path of economic growth (Bilawal, 2014).

FDI perhaps offers significant benefits, as it provides constant investment, increase job opportunities, enhance productive capacity, transfer skilled knowledge, and provide ease of entry in the global market and trade openness in the receiving economy. Exports of the host country would increase due to the increase in production process due to which foreign earning of the economy would increase which in result would intensify the growth process of the country (Iamsiraroj and Ulubaşoğlu, 2015). In developed economies wages of the skilled labor force are very highly compared to developing ones. Lower wages of working force is another factor which attracts foreign investment in the host economy (Blonigen and Piger, 2014).

Despite there is a growth directly advancing with the population growth, the advancing of the population in the opposite direction with the rate of the labor force participation is thought to be a paradox. This paradox reveals some concepts, namely, "jobless growth" and "unskilled growth" (Kargi, 2014).

Rise in competition in the state will increase the production process in the country, as due to the increase in competition results in use of innovative, modern and skilled technique of production. Due to increase in competition skilled and cheap labor force is used in order to

boost up the process of exports. Foreign investors always want to invest in countries having cheap, skilled and competitive labor force. Increase in investment will increase the productive volume and foreign trade of the country and enhances the growth process of the economy (Agihon, 2008).

Rise in technology can harm the environment and affect the environmental quality by two ways, Pollution by air, water, heat and noise pollution can all be caused by producing and using technology. Another way is waste, manufacturing technology creates large amounts of waste, used computers and electronics get thrown out when they break or become outdated. Called "techno-trash" these electronics contain all sorts of hazardous materials that are very unsafe for the environment (Mutafoğlu, 2012).



4. RESEARCH METHODOLOGY

In this section we established sources of data collection, its description and the methodology applied in order to study the effect of factors on FDI in Turkish economy.

4.1. Time Series Models

In order to solve this econometric model for Turkey a time series model is constructed. A time series is a set of observations produced successively in time. So, in time series data variables depends upon each other. If a time series is stationary, it means that the data fluctuates about a mean or constant level. While non stationary data does not fluctuate about a mean. It may trend away or drift away from a mean. Information content of a time series should be carefully considered for the selection of appropriate analysis tools. If the time series is not stationary, we can often transform it to stationarity with difference technique. The unit roots for the variables of time series analysis is stationary (ADF test with result discussed in next chapter). The main objective of the time series statistics is to develop the deep consideration of the procedure that caused the time series (Gujarati, 2009).

4.2. Unit Root Test

The preliminary step in estimation strategy is to examine the null hypothesis either individual series of T observation is integrated of order one, $I(1)$, against the alternative hypothesis that is integrated by order zero $I(0)$ (leybourne, 2005). Statistical theories offer a wide range of tests. The most commonly applied tests are Dickey Fuller test, Augmented Dickey Fuller test and Phillip Peron test. Dickey and Fuller 1979, 1981 have developed first formal unit root test to determine the stationarity level of variables. The choice of selecting appropriate test depends upon sample size.

Augmented Dickey Fuller test is used instead of Dickey fuller in this study. The reason of not choosing Dickey Fuller test is because the series often generates with autocorrelation and heteroscedasticity. There is frequently an issue in lag selection of regression model, ADF test dealt with this issue and rather explaining the autocorrelation structure of the generating procedure by corresponding autocorrelation models. Dickey and Fuller implemented standard Dickey-Fuller test with non-parametrically improved test statistics. In this test, the lag length

is automatically selected so the user does not need to specify it, thus it adopts the same technique likewise in Dickey fuller, but it augments the test statistic to perform heteroscedasticity and autocorrelation test. The main benefit of this test is being non-parametric in nature. Therefore, it is not essential to specify the lags of parameters and model in testing the regression (Arltova and Fedorova, 2016).

The Null Hypothesis for unit root test is:

H0: The variable is not stationary or has a unit root

The Alternative Hypothesis for unit root test is:

H1: The variable is stationary

4.3. Linear Regression Model

Linear regression model has certain statistical properties. These properties make this technique attractive for evaluation of results. Ordinary least square method is the most influential and common method for the estimation of empirical data.

$$Y_{it} = \beta_0 + \beta_1(X_{it}) + \mu_{it} \quad (1)$$

$$GFDI_t = \beta_0 + \beta_1(EG_t) + \beta_2(LFP_t) + \beta_3(HT_t) + \beta_4(GFT_t) + \beta_5(GER_t) + \mu_t \quad (2)$$

OLS test has certain numerical properties. There are also certain statistical properties which are built on data generation procedure. OLS estimators are very easily calculated. As results are computed from sample data so, the regression line can easily be computed from these estimates. (Gujarati, 2009). The assumptions of linear regression model involve i.e.

- Regression equation contains linear parameters
- Values of parameters must be fixed.
- Error term and parameters should have average value equals to zero
- The data must be homoscedastic.
- There exists no autocorrelation among variables
- Parameters taken should be less than number of observations.

- Appropriately stated regression model is used for empirical analysis.
- Data is free from multicollinearity.

4.4. Data and Variables

The statistics for the empirical valuation is taken from World Bank over the time period 1988-2018. The summary and bases of the variables used in the analysis are shown in table 4.1 given below.

Table 4.1 Data Sources

Variables	Description and Data Source
Growth rate of FDI flows	Growth rate of FDI flows is defined as : $GFDI = (FDI(t) - FDI(t-1)) / FDI(t-1)$ Source: World Bank, (2017)
Economic growth rate	Economic growth of country is evaluated by the growth rate of GDP. The GDP growth rate measures how fast the economy is growing. It does this by comparing one year of the country's gross domestic product to the previous year divided by the GDP in the previous year. $EG = (GDP(t) - GDP(t-1)) / GDP(t-1)$ Source: WDI, (2017)
Labor force participation rate	Labor force participation rate is a measure of an economy's active work force. Includes people who are currently employed and people who are unemployed or actively seeking employment divided by working age population. The total labor force, or currently active population, comprises all persons who fulfill the requirements for inclusion among the employed or the unemployed during a specified brief reference period. Source: WDI, (2017)
Growth rate of foreign trade	Foreign trade is measured by the Merchandise trade (% of GDP). Goods which add or subtract from the stock of material resources of a country by entering (imports) or leaving (exports) its economic territory. Merchandise trade as a share of GDP is the sum of merchandise exports and imports divided by the value of GDP. $GFT = (FT(t) - FT(t-1)) / FT(t-1)$ Source: WDI, (2017)

Technology	Technology variable is measured by the ratio of High-technology exports to the total exports in the manufacturing sector. High-technology comprises economic, employment, science, and innovation data describing manufacturing and services activities, traded products, and patents that selected on the basis of their technological intensity. Source: WDI, (2017)
Change in exchange rate	Exchange rate is measured by official exchange rate, which defines the price of Turkey's currency in relation to another Dollar. Growth rate of exchange rate is defined as: $GER = ((ER(t) - ER(t-1)) / ER(t-1))$ Source: WDI, (2017)

4.5. Econometric Model

By referring the study of Gökmenoğlu (2016), which investigated association between energy consumption, economic growth, CO2 emissions and FDI, we developed a model to explore the effects of variables that determine the FDI of Turkish economy.

Model:

$$GFDI = f(EG, X) \quad (3)$$

Where,

GFDI = Growth rate of FDI flows

EG = Economic growth rate

X = Control variables

and,

LFP = Labor force participation rate

HT = Technology

GFT = Growth rate of foreign trade

GER = Change in exchange rate

Model (3) given above is converted into econometric model as follows:

The determinants of the growth rate of FDI flows could be represented with function,

$$GFDI_t = \beta_0 + \beta_1 (EG_t) + \beta_2 (LFP_t) + \beta_3 (HT_t) + \beta_4 (GFT_t) + \beta_5 (GER_t) + \mu_t \quad (4)$$

Economic growth rate, labor force participation rate, technology, growth rate of foreign trade and change in exchange rate are independent variables and μ is the error term in the above equation.

4.6. Descriptive Statistics and Correlation Matrix

The time series data of Turkey for the empirical investigation is collected over the time duration 1988-2018. Descriptive Statistics and Correlation Matrix are shown below in Table 4.2 and 4.3.

Table 4.2 Descriptive statistics for the full sample (1988 - 2018).

Variable	Obs	Mean	Standard Deviation.	Min	Max
GFDI	3 0	0.27459 27	0.72051 87	- 0.6772076	2.60179 5
EG	3 0	4.50445 9	4.51997 6	- 5.962311	11.1135
LFP	3 0	53.711	3.38028 2	48.491	59.79
GFT	3 0	0.02579 15	0.11359 23	- 0.3301831	0.27406 22
HT	3 0	2.13544 1	0.84778 1	0.99997 2	4.82575
GER	3 0	0.35870 07	0.39454 19	- 0.087873	1.69546 5

Table 4.2, the summary statistics of variables i.e. Growth rate of FDI flows, economic growth, change in exchange rate, Growth rate of foreign trade, technology and labor force participation rate are discussed.

The variable GFDI which indicates the growth of FDI has reached a Maximum 2.6 percent in 2004 with 2785000000 dollars of FDI and 1702000000 dollars in the previous year, moreover it has as mean value 0.28 percent during this period.

The GDP growth had a means value equal to 4.50 percent and maximum value 11.11 percent in 2011 and it has a Standard deviation 4.51 percent.

For the LFP has 53.7 percent as mean value. Also it has a maximum value of 59.79 percent and minimum value 48.49 percent in 2006.

For GFT, HT and GER they marked as a mean value 0.025 percent, 2.13 percent, and 0.35 percent respectively. In addition, they have as standard deviation 0.11 percent, 0.84 percent and 0.39 percent respectively.

Table 4.3 Correlation matrix for the full sample (1988-2018)

	GFDI	EG	HT	LFP	GFT	GER
GFDI	1.0000					
EG	0.3083	1.0000				
HT	0.2385	-0.2905	1.0000			
LFP	-0.3079	-0.0277	-0.2183	1.0000		
GFT	0.1755	-0.0336	0.1962	0.0797	1.0000	
GER	-0.0450	0.0334	-0.0483	0.5234	0.3243	1.0000

In Table 4.3., the matrix of correlation for the full sample of Turkey is reported. According to correlation values, variables EG, HT and GFT affect the GFDI positively, where the stronger correlation exists between GFDI and economic growth rate with 0.3083.

And for LFP and GER represent a negative correlation with GFDI -0.3079 and -0.04 respectively.

4.7. Diagrams

Graphs or charts are a common way to visually describe relationships in the data. This part involves the importance and relevance of factors with topic through representing graphs that show every variable separately as below.

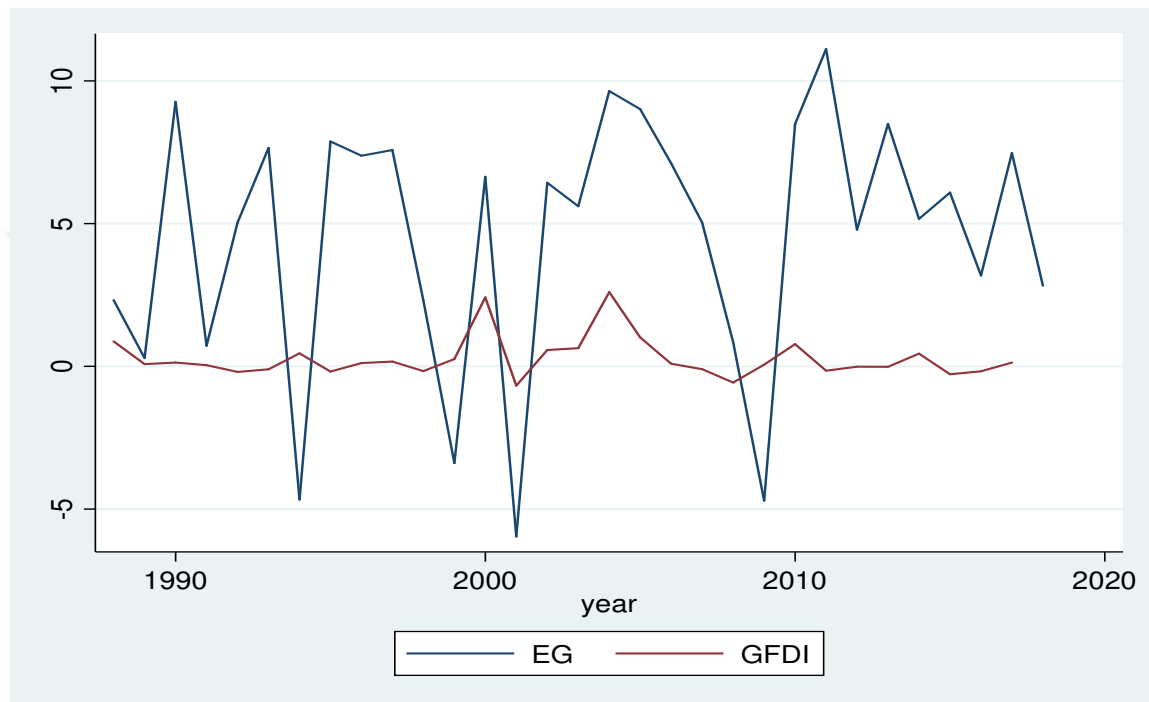


Figure 4.1: Economic Growth and Change in FDI.

Source: World Bank, 2019

Globalization of the economies in the international market will improve the economic condition of these countries as globalization positively affects the social benefit. Increase in process of industrialization in these countries will attract the external investors in these economies. These raise the process of production and GDP of the economies. Increase in productive capacity performs a main role in enhancing the development and growth process of the states.

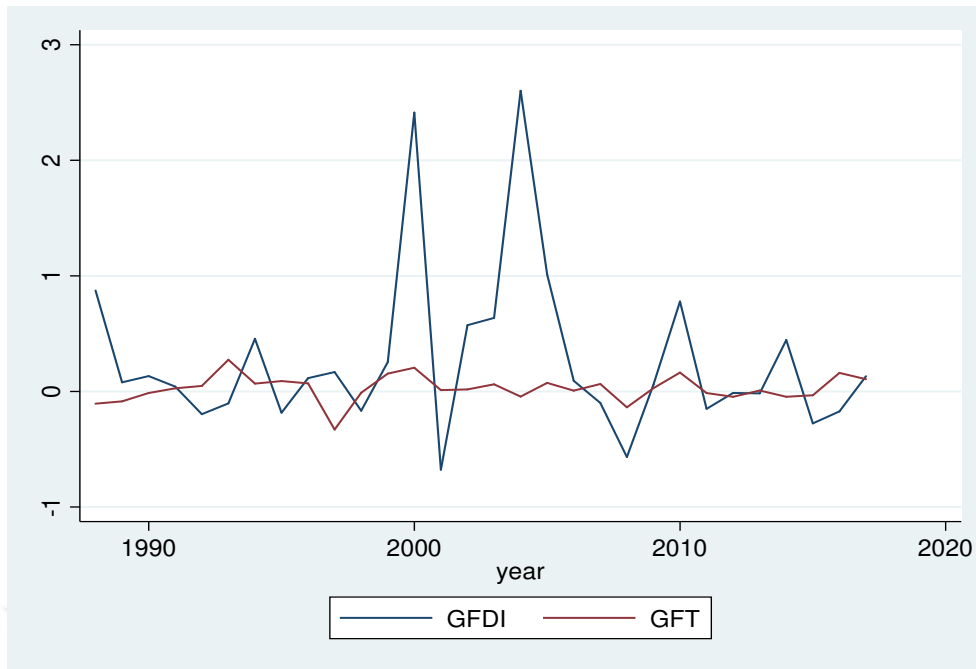


Figure 4.2: Growth Rate of FDI and the growth rate of foreign trade

Source: World Bank, 2019

Growth in FDI arrivals would also be affected by the foreign trade in the receiving country, as an increase in investments increases the productive capacity which would positively influence the exports of the receiving economy. An increase in exports in result will increase the national income or earnings of the receiving country.

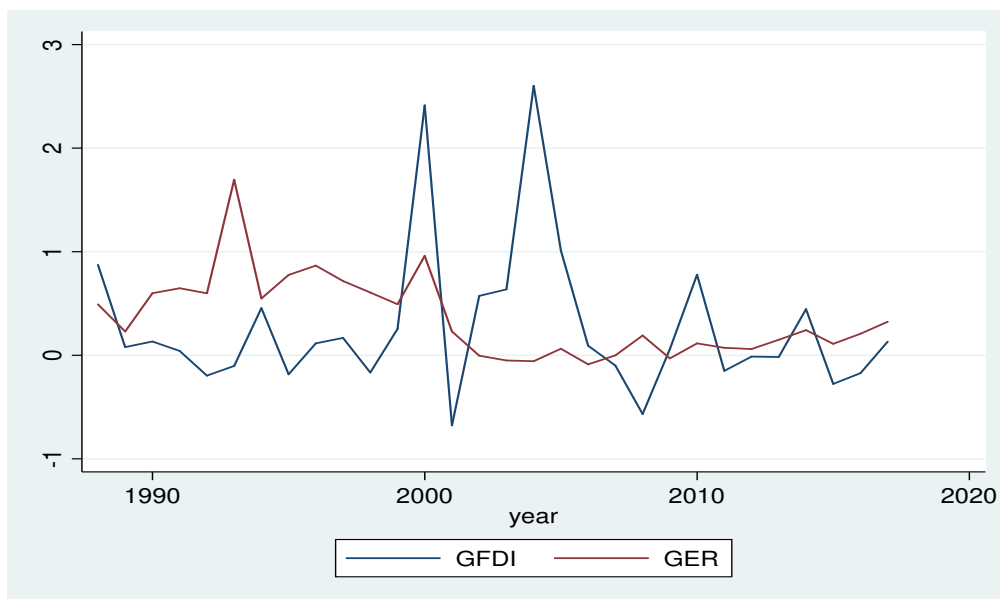


Figure 4.3 Growth Rate of FDI and the Change in Exchange Rate

Source: World Bank

Growth rate of exchange rate will affect the prices of exported goods but alternatively it would intensify the export demand in the world market. The export of those economies would increase which produces the cheap products. Increase in exports will increase the GDP of the country and put the country on the path of economic growth.

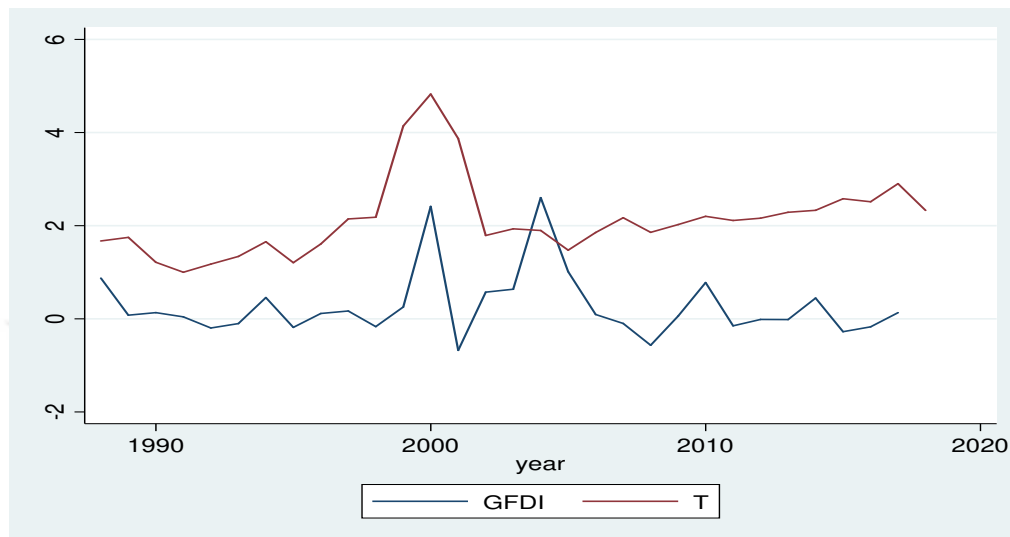


Figure 1.4 : Growth rate of FDI and Technology

Source: World Bank

FDI stimulates the process of technical allocation and enhances the efficiency of the factors of production and can help in proper utilization of technology. Proper allocation of innovative technology in the country enhances knowledge and upgrading the skills. This will lead to increasing in productivity. So, increase in production process will raise the overall profit. So, increase in returns in form of GDP will enhance the economic growth of the country.

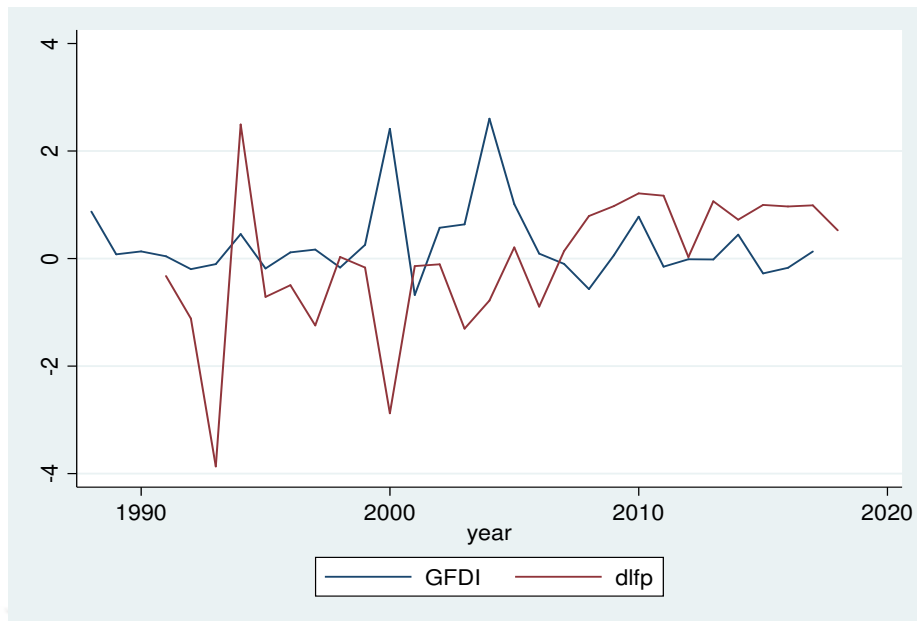


Figure 4.5 : Growth Rate of FDI and Labor force participation rate

Source: World Bank

The process of technical allocation and enhances the efficiency of production can help in proper utilization of manpower. Proper allocation of innovative technology in the country enhances the capability of skilled work force. Increase in productivity of labor force will increase the production process and raises the overall profit. So, increase in returns in a form of GDP will enhances the economic progress of the country.

5. EMPIRICAL RESULTS AND DISCUSSIONS

In this chapter unit root test results and linear regression model test are discussed, followed by the interpretation of our results.

5.1. Empirical Findings

Empirical findings of the unit root test and regression results are presented in this part.

In this part, we are going to analyze FDI as an example and for the rest we are going to resume the results in table.

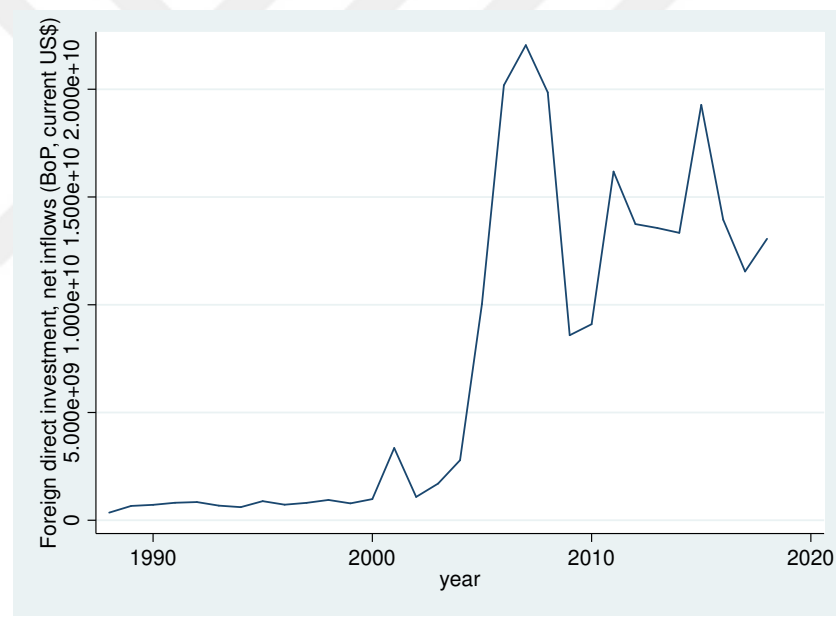


Figure 5.1: FDI inflows

Source: World Bank, 2019

As seen from the Figure 5.1 above represent the variable Growth rate of FDI during the period 1988-2018, as we can see it shows a trending pattern between 1988-2018.

In order to test the stationarity of all variables, we are going to run the ADF test. The 3 different cases are tested:

1. ADF with only intercept

2. ADF with intercept and trend
3. ADF without both intercept and trend

The hypothesis of ADF test is:

- H0: the variable is not stationary or has a unit root
- H1: stationary

Table 5.1 ADF test for GFDI

	Test Statistique	1% Critical Value	5% Critical Value	10% Critical Value
Z(t)	-4.821	-4.343	-3.584	-3.230
Mackinnon approximates p-value for Z(t) = 0.0004				

D.GFDI	Coef.	Std. Err.	T	P>t	[95% Confi.	Inter val]
GFDI						
L1.	-.933864	.1937156	4.82	0.000	-1.332052	-.535676
_trend	-.0016398	.0166707	0.10	0.922	-.0359069	.0326273
_cons	.2600716	.2941536	0.88	0.385	-.3445699	.864713

The p-value is equal to 0.0004 and it is less than 0.05, we conclude that the variable GFDI is stationary and reject the Null hypothesis.

The table below shows the results of unit root tests for all variables:

Table 5.2 ADF test for all variables:

This table resumes all results of ADF test of all variables:

Variable	P-value	Results of Null Hypothesis At 5 percent	Transformation
GFDI	0.0004	Reject H0	
EG	0.0000	Reject H0	
LFP	0.9869	The trend is significant. So, LFP has a unit root	Dlfp
GFT	0.0012	Reject H0, GFT is stationary order (0)	
HT	0.3838 0.1279	The constant is significant. So, the variable HT has a unit root	Dht
GER	0.0328	Reject H0, GER is stationary	

The results of the table 5.2 above show that the variables GFDI, EG, GFT and GER are significant with p-value less than 5 percent. For the rest, HT and LFP are not significant because their p-values are greater than 5 percent so they have a unit root. In order to solve this problem we will use the first differentiation of these insignificant variables.

Table 5.3 ADF test results for all variables:

This table resumes all results of ADF test of all variables:

Variables	p-value	Results of Null Hypothesis
GFDI	0.0004	Reject H0
EG	0.0000	Reject H0
GFT	0.0012	Reject H0
GER	0.0328	Reject H0
LFP	0.0000	Reject H0
HT	0.0047	Reject H0

As a result, it can be concluded that all variables are stationary. Hence the model can be analyzed with OLS.

5.2. OLS Technique

In this section, we will use the ordinary least square technique in order to determine the relationship between the dependent variable, which is GFDI, and the independent variables EG, GFT, GER, LFP and HT.

Table 5.4 OLS Test Result

The table below resumes the results of OLS test:

Source	SS	Df.	MS	Number of obs. =30
				F (5, 20)=2.83
Model	6.03942563	5	1.20788513	Probe > F =0.0434
Residual	8.54518578	20	.427259289	R-square =0.4141
				Adj. R-square =0.2676
Total	14.5846114	25	.583384456	Rot MSE =.65365

GFDI	Coef. Std.	Err.	T	P>t	[95% Conf. Inter val]
EG	0.029623	0.0379143	0.78	0.444	-0.0494649, 0.1087108
GFT	1.729763	1.20146	1.44	0.165	-0.7764393, 4.235964
GER	-0.2641754	0.3493549	-0.76	0.458	-0.992917, 0.4645663
HT	-0.5577727	0.2365198	-2.36	0.029	-1.051144, -0.064401
LFP	-0.1573683	0.115499	-1.36	0.188	-0.3982949, 0.0835583
_cons	0.1563341	0.2384894	0.66	0.520	-0.3411461, 0.6538143

Tableau: results of OLS in STATA

5.3. Results Interpretation

The F-stat ($F=0.04$) is less than 5 percent, which means that our model can be acceptable. Moreover, the variables EG, GFT, GER and LFP are insignificant variables because their p-values are greater than 5 percent (0.444, 0.165, 0.458 and 0.188 respectively). Except for the variable HT which has a p-values equals to 0.029 which is less than 5 percent. So, HT is a significant variable.

The variable of GFDI has a positive effect from variables EG and GFT because the coefficients related to these two variables are positive.

Evaluated results show that 1% increase of Economic growth can increase the GFDI by 0.02 percent. 1% increase of Growth of foreign trade can increase the GFDI by 1.73 percent.

The other variables, Growth of Exchange rate, Technology and Labor force participation rate have a negative effect to the GFDI and as result when these variables increase by 1% they can decrease the GFDI by -0.264 percent, -0.557 percent and -0.157 percent respectively.

The insignificant results that we noticed are because of data limitations and limited data as we collected data set for 30 years. So, there contradict with previous studies and results are not in parallel with expected results.

In the literature, there are empirical findings from other studies that support out results According to Alici and Ucal (2003), analyze the influence of globalization on the financial development in case of Turkey. Estimated results show that economic growth of Turkey relies on the amount of arrival of foreign capital in the economy.

According to Gokmenoglu and Taspinar (2016), FDI inflows play a significant role in transferring skills, enhances competition and inspiring innovation in the receiving country.

Estimated results show that growth in GDP decreases the environmental pollution in the economy and enhances the FDI inflows.

According to Cambazoglu and Karaalp (2014), With the purpose of attracting foreign asset in the developing countries, foreign investors are offered low rate of taxes or tax exemptions. Estimated results represent that foreign trade have insignificant effect on FDI and economic progress of turkey.

According to Iamsiraroj and Ulubaşoğlu (2015), Increase in exports will increase the inflows of foreign earning in the country. Evaluated outcomes represent that foreign trade positively influence the FDI arrivals in an economy.

According to Xu (2000), the unskilled workforce does not have the capability to understand the technical expertise regarding inflow of modern technology. Estimated outcomes represent that diffusion of technology positively influences the FDI inflows in developed economies. While in case of developing and low-income economies inflow of technology negatively influences the FDI inflows.

According to Mutafoğlu (2012), Increase in technological innovation raises the production process in these economies. Estimated results show that an increase in technology spillovers has a negative effect on environmental quality and FDI inflows and it is significant. So, FDI attracts in those economies having low environmental quality.

According to Alvarado, Iniguez, and Ponce (2017), Increase in the transfer of modern technology enhances the productivity in that receiving country. Estimated results show that in high income economies, technology enhances the process of production and positively affect the productive capacity of these countries. While in middle income economies has an irregular affect. In case of lower income economies transfer of technology has a negative effect on production process of these countries. These outcomes express that it is not an important issue to enhance FDI inflows and economic progress of countries.

According to Payaslioglu and Polat (2013), this article examines the impact of the level and volatility of real exchange rate on FDI inwards into Turkey. They found a negative effect exchange rate and its volatility on FDI inflows into Turkey and it is non-significant.

According to Bilawal (2014), Decrease in exchange rate will decline the prices of exported goods. The export volume of those economies would increase which produces the cheap products. Increase in exports will increase the FDI and GDP. And put the economy on the path of economic growth.

According to Cambazoglu and Gunes (2016), this study tries to test the hypothesis that there exists a reciprocal relationship between FDI inflows in Turkey and the real exchange rate level. The results obtained that there is a co-integration relationship between the exchange rate level and FDI inflows in Turkey. The estimation results showed that real exchange rate appreciation causes a decrease in FDI flows.

According to Masood, Ilyas, and Rehman (2013), this study has analyzed the determinants of foreign direct investment in Pakistan. The findings of the study show that the GDP has positive and insignificant effect on foreign direct investment. The coefficient of labor force and taxes is negatively associated with FDI and this relation is statistically insignificant.

According to Kargi (2014), this study tried to bring an explanation to concept of the “jobless growth” through labor force participation rate. Result show that economic growth has not meaningful effect with labor participation rate. That irrelevance supports the thesis of the “jobless growth”.

6. CONCLUSION

The aim of this investigation is to study the role of Foreign Direct Investment on the Turkish economy. The basis of data collection is World Development Indicators dataset. Most of the outcomes unfortunately appeared to be insignificant because of data restrictions but in theory we have been able to see parallel results with the literature. Economic growth and growth rate of foreign trade positively influence growth in FDI although they are insignificant in the expected level. Change in exchange rate negatively influence the growth of FDI and it is insignificant. Technology negatively influences the growth of FDI and it is significant. Labor force participation rate has negative link with the growth of FDI and the effect is insignificant.

FDI inflows not only enhance the productivity and economic performance of economy but it also performs a significant role in transferring skills, modern techniques and inspiring innovation in the host country. So, increase in FDI will overall raises the productive capacity of the firms and can help in strengthen the industrial sector of the economy. This led the exports of country to grow and enhances the foreign earning of the economy.

The research also emphasized the modifications that must be executed and the inducements that should be familiarized in Turkish economy in current years in order to attract FDI, mainly inducements in R&D and those granting nationality to outsiders under mention eligibility settings. According to the rising developments and progress in Turkish economy policy makers in their external strategies should include FDI as an important factor in determining growth. Globalization of Turkey must be enhanced by forming strategies of attracting additional FDI in order to attain the positive effects of FDI on productivity and exports.

After studying the subject role of foreign direct investment and the factors that affecting it in Turkey, by looking at the data and information given above, the researcher suggested some recommendations deemed to be useful in this field. Summarized in the following points:

1- By looking at the role of FDI in the Turkish economy, which is neither negative nor positive at all time. The researcher recommends increasing the investments as much as possible. But we have to focus on other needs of the local market, such as reducing unemployment, transferring technical and skills, and to create organizational and marketing competition.

2- Government should implement policies not only to attract FDI inflows but also for financial institute's expansion and progress. The recent examination supports the policy makers to boost the economic in Turkey by investing FDI in a productive sector of the economy.

3- We should avert open-door or closed-door policy for foreign direct investments. It is advisable to differentiate between economic activities that ask foreign investors and then working to get them after being sure of the good ambience for their investment.

4- Create an institution or a group from the Turkish Central Bank and the National Center of Statistics to combine all the data related to FDI in Turkey in order to publish it annually, this will avoid conflicts in statistical data, and easier for investors and researchers to search about data of FDI in the country.

After viewing the results of the study and other studies relevant to the subject of foreign direct investments in Turkey, and observe how different variables influence the FDI in Turkey. It could be new questions or topics for other researchers to study in the future, such as:

1- A comprehensive study about the direct and indirect impacts of FDI on the balance of payments.

2- What are the desired facilities by foreign investors, which can be awarded without causing negative impacts in the short and long term on the host country?

3- Are the incentives provided by the Turkish government cover the aspirations and ambition of foreign investors?

It is proposed that additional research might be focused by other essential aspects. This study is a vital step in examining the role of FDI in Turkish economy. It is expected that this investigation inspires the debate and expand the facts further in this area of study.

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