

Chapter 6

Political Economy of Foreign Direct Investment: The Complexity of Linking Theory with Practice

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ABSTRACT

The global political economy evolves around shifting theoretical and conceptual paradigms that simultaneously reflect the ongoing globalization process involving several actors and processes. Thus the complexity of linking the theory and practice of global political economy increases, and this, in return, accelerates further the in-depth inquiries in this interdisciplinary field of research such as discussions around global governance, international economic system, international trade, global value chains, and international development among several others. More specifically, in parallel with these developments, underlying trends in the global economy point to vast developments in both theory and practice of foreign direct investment (hereinafter FDI) across regions, countries and sectors as well, which form the main focus point of this chapter which will attempt to address the complexity of linking theory with actual practice through also involving global value chains with reference to FDI between EU member states and Turkey.

INTRODUCTION

As it is well-known, FDI has been pivotal point of research since the World War II in global economy with numerous studies and research pointing out its different aspects in both developing and developed countries. Moreover, several theoretical and/or conceptual frameworks have been brought into perspective analyzing FDI inflows and outflows in both economic and political perspectives, the patterns of FDI across the world, effects of FDI on economic development, competitiveness concerns, role of multinationals, role of international organizations, global value chains, and so on. Still, however, there is hardly any single agreed upon theoretical or conceptual framework concerning FDI but many. This

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is partially because FDI requires further evidence from real world to sustain the mainstream theoretical framework associated with realism/economic nationalism, liberalism, critical theory of global political economy among others as well as the existing shifting theoretical paradigms on the FDI. Thus the main objective of this chapter is to attempt linking the theory and practice of FDI through the lens of global political economy while simultaneously presenting examples from Europe and Turkey reflecting also its inherent complexity.

While realizing this main objective, a multi-layered analysis will be used as the methodological framework towards reaching concrete results on FDI issues. Global level of analysis relates to a broad set of parameters such as global political developments in relation to FDI flows and even more specifically the global value chains among others. The interstate level of analysis relates to interactions between the states in relation to the FDI inflows and outflows as a subset of regional and global level.

In this chapter, first, the intersection of the mainstream GPE theories will be briefly presented both in general and specifically with reference to FDI through employment of the above-mentioned levels of analysis as the structural framework. Second, shifting paradigms of global political economy from liberalism to structural transformation, economic development, to tough international competition and to political regimes and policy environment for FDI will be points of emphasis next to several issues which form the basis of FDI decisions and processes across the world underlying further the state-market interactions as well. Third, the current work of international organizations such as UNCTAD, IFC, and OECD towards enhancement of global order vis-à-vis FDI will be briefly presented. Fourth, the FDI interactions between the European Union and Turkey will be brought into perspective as the main example. Fifth, the chapter will combine shifting global paradigms in FDI with actual FDI processes thus will attempt to link theory with practice. Finally, the chapter will briefly identify future research areas with reference to the political economy of FDI in line with the different perspectives and discussions that are presented throughout the chapter underlining the complexity of the overall process.

BACKGROUND

The mainstream GPE theories such as Realism (Economic Nationalism), Liberalism and Historical Structuralism (Marxism) provide a relatively clear analytical distinction while also covering a variety of sub-theories and hybrid paradigms in themselves or at times intersecting with one another in relation to the criticisms around the mainstream theories. This widely recognized analytical classification of the GPE theories owes to Cohn (2011). For the sake of clarity in relation to FDI, however, this section will not indulge in detailed definitions around these rather well-known GPE theories but instead will directly present an overview of more specific FDI theories that relate to the practice of FDI in an attempt to link the existing theoretical approaches with the practice for the better.

Prior to presentation of an overview of FDI theories, still, it is also important to present the internationally recognized definition of FDI. There are basically three internationally accepted definitions of FDI; one belongs to IMF (1993), the second one belongs to OECD (1996), and the third one is that of UNCTAD (2003). For the purposes of this chapter the OECD definition of FDI is taken into account which reads as below:

FDI is defined as cross-border investment by a resident entity in one economy with the objective of obtaining a lasting interest in an enterprise resident in another economy. The lasting interest implies the

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