

# Chapter 12

## Outward Foreign Direct Investment in Emerging Economies: A Case of Turkey

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### ABSTRACT

*Outward Foreign Direct Investment (OFDI) has been utilized by developed economies to enter developing markets for competitive advantages. However, recent boom in OFDI from emerging economies has prompted the question as to why these economies are investing abroad? A modest amount of literature exists regarding China and India, however, Turkey being an emerging economy has been largely untapped when it comes to determinants of OFDI. This study uses the Global Competitiveness Index (GCI) to find host and home country factors which have led to OFDI from Turkey to their top 10 investment destinations for the past 10 years. The host country factors found to be significantly correlated with Turkish OFDI are innovation (Netherlands and Russia), technological readiness (Russia and UK), labor market efficiency (Netherlands), infrastructure (Netherlands), domestic market size (Germany), and exports (UK). The home factors found to be significantly correlated with Turkish OFDI are infrastructure and domestic competition.*

### INTRODUCTION

Foreign Direct Investment (FDI) is an important factor for economic growth especially within developing economies. Generally the flow of FDI has been from developed towards developing economies, however in recent history there has been a shift in the outward foreign direct investment (OFDI). Emerging economies have been increasingly investing abroad sparking the question of how FDI outflows or OFDI impacts the home country and why are companies in emerging economies engaging in more OFDI today?

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Outward FDI refers to companies investing abroad through various tools such as Green field investments, Brown field investments, and expansion of existing foreign facilities. Since the year 2000, there has been a surge in the OFDI from developing economies around the globe. The OFDI figures for all developing economies combined have increased exponentially. According to United Nations Conference on Trade and Development (UNCTAD, 2016; UNCTAD), FDI Outflows from developing economies increased from an estimated \$88.63 billion to an estimated \$377.94 billion from the year 2000 to 2015 respectively. The proportion of FDI outflows from developing economies to all FDI outflows from the world has also increased immensely, changing from 7.62% in 2000 to 25.64% in 2015. Whereas, the OFDI stock from developing economies increased from \$734.81 billion (9.88% of global OFDI stock) in 2000 to \$5, 296.35 billion (21.15% of global OFDI stock) in 2015.

Turkey holds a geographical advantage due to its location forming a connection between Asia and Europe. Turkey is also one of the fastest growing economies around the globe, growing almost three fold since the year 2000; the GDP of Turkey grew from \$266 billion in 2000 to \$798 billion in 2014. The increasing foreign direct investment has helped the Turkish economy grow over time, while there has been growth in FDI inflows there has also been an increase in FDI outflows. Turkish organizations are looking to take their business abroad and invest in different regions. But the question arises as to why Turkish companies are going abroad? Why invest in the international market rather than the domestic market? This study is undertaken in order to find the OFDI determinants among Turkish organizations.

The rest of the paper is divided into the following sections: Section 2, Turkey's Current Outward Foreign Direct Investment Overview; Section 3, Literature Review; Section 4, Methodology; Section 5, Results; Section 6, Conclusion.

## **TURKEY'S CURRENT OUTWARD FOREIGN DIRECT INVESTMENT OVERVIEW**

Turkey's OFDI flows have been increasing over the years improving the OFDI stock to over \$40 billion. Turkish firms are looking to go abroad and have recently had major mergers and acquisitions. OFDI not only helps these Turkish firms reach new markets, resources, and technology but also provides employment to thousands of people in host countries. Several surveys completed over the years show the number of foreign workers which are employed by Turkish MNEs; in 2007 the top 12 Turkish MNEs employed over 72, 000 workers abroad (KHU-DEIK-VCC, 2009), in 2009 the top 19 Turkish MNEs employed over 90, 000 workers abroad (KHU-DEIK-KPMG-T-VCC, 2012), and in 2012 the top 29 Turkish MNEs employed over 115, 000 workers aboard (KHU-DEIK-VCC, 2014). Turkish MNEs continue to invest abroad and increase their foreign affiliates and assets. Turkish OFDI Stock had crossed the \$40 billion mark in the year 2014 over double its size in 2008 (estimated \$17.85 billion). UNCTAD (2015) data on Turkish OFDI shows that Turkish investors have substantially increased their investments abroad after the 2008 global financial crisis.

### **Geographical Breakdown**

A breakdown of the geographical OFDI is important because it helps us analyze the regions in which Turkey's investors hold interest. Europe has always been a close trading partner of Turkey especially after the Customs Union agreement between European Union and Turkey in 1996. Customs Union strengthened the trade relationship between EU and Turkey paving the way for higher volumes of trade

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