

THE EFFECTS OF ENTREPRENEURSHIP, COUNTRY FRAGILITY, HUMAN DEVELOPMENT, FIXED CAPITAL INVESTMENTS AND GLOBALIZATION ON FOREIGN DIRECT INVESTMENTS IN TURKIYE

OS EFEITOS DO EMPREENDEDORISMO, DA FRAGILIDADE DO PAÍS, DO DESENVOLVIMENTO HUMANO, DOS INVESTIMENTOS DE CAPITAL FIXO E DA GLOBALIZAÇÃO SOBRE O INVESTIMENTO ESTRANGEIRO DIRETO NA TURQUIA

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Kayhan Öcal*

*Baskent University, Ankara, Türkiye

Orcid: <https://orcid.org/0000-0002-4305-0994>

kayhanocal@gmail.com

Gökhan Göksu**

**TOBB University of Economics and Technology, Ankara, Türkiye

Orcid: <https://orcid.org/0000-0003-2325-193X>

ggoksu@etu.edu.tr

Güray Küçükkocaoğlu*

*Baskent University, Ankara, Türkiye

Orcid: <https://orcid.org/0000-0001-6170-3269>

gurayk@baskent.edu.tr

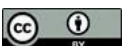
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Abstract

Underdeveloped and developing countries seek solutions to major problems they encounter in the path of sustainable economic growth and development, such as lack of capital, technology, qualified manpower and infrastructure, employment creation and foreign trade deficit. Multinational companies (MNCs), on the other hand, have problems with raw materials, cheap labor, shrinking market share and profit maximization, tariffs and quotas etc. trying to overcome obstacles. One of the prominent methods in overcoming these problems is Foreign Direct Investment (FDI). From past to present, FDI has played an important role in the development processes of many countries. Developed countries that want to maintain their level of development have also participated in the race to attract FDI from underdeveloped and developing countries that are trying to achieve the sustainable development goal and rise to the level of developed countries. In this study, first of all, the theoretical framework of FDI is discussed. In this context, the reasons for FDI decisions and demands in terms of countries and

Resumo

Países subdesenvolvidos e em desenvolvimento buscam soluções para os principais problemas que encontram no caminho do crescimento e desenvolvimento econômico sustentável, como a falta de capital, tecnologia, mão de obra qualificada e infraestrutura, geração de empregos e déficit na balança comercial. As empresas multinacionais (EMNs), por outro lado, enfrentam problemas com matérias-primas, mão de obra barata, redução da participação de mercado e maximização de lucros, tarifas e cotas, etc., tentando superar esses obstáculos. Um dos principais métodos para superar esses problemas é o Investimento Estrangeiro Direto (IED). Do passado ao presente, o IED desempenhou um papel importante nos processos de desenvolvimento de muitos países. Os países desenvolvidos que desejam manter seu nível de desenvolvimento também participam da corrida para atrair IED de países subdesenvolvidos e em desenvolvimento que buscam atingir o objetivo de desenvolvimento sustentável e alcançar o nível dos países desenvolvidos. Neste estudo,



MNCs, the entry methods of FDI, the factors that determine FDI decisions, and criticisms of FDI are emphasized; in Turkey, which subsequently failed to achieve the desired level of FDI inflows; The effects of entrepreneurship, country fragility, human development, fixed capital investments and globalization factors on FDI inflows to Turkey were investigated. As a result of the regression analysis made with annual data between the years 2000-2020 in Turkey; positive developments in entrepreneurship, human development and fixed capital investments have positive FDI inflows; It was concluded that the fragility of the country and globalization had a negative effect on it.

Keyword: Entrepreneurship. Fixed Capital Investments. Foreign Direct Investment. Globalization. Human Development.

primeiramente, discute-se o arcabouço teórico do IED. Nesse contexto, enfatizam-se os motivos das decisões e demandas de IED em termos de países e EMNs, os métodos de entrada de IED, os fatores que determinam as decisões de IED e as críticas ao IED; Na Turquia, que posteriormente não conseguiu atingir o nível desejado de fluxos de IED (Investimento Estrangeiro Direto), foram investigados os efeitos do empreendedorismo, da fragilidade do país, do desenvolvimento humano, dos investimentos em capital fixo e dos fatores de globalização sobre os fluxos de IED para a Turquia. Como resultado da análise de regressão realizada com dados anuais entre os anos de 2000 e 2020 na Turquia, constatou-se que desenvolvimentos positivos no empreendedorismo, no desenvolvimento humano e nos investimentos em capital fixo resultaram em fluxos positivos de IED. Concluiu-se que a fragilidade do país e a globalização tiveram um efeito negativo sobre os fluxos de IED.

Palavras-chave: Empreendedorismo. Investimentos em Capital Fixo. Investimento Estrangeiro Direto. Globalização. Desenvolvimento Humano.

1 INTRODUCTION

Foreign direct investment (FDI), which can also be interpreted as a "restructuring of global production," is not a newly discovered phenomenon; its origins trace back to the 1850s (Gürak, 2003). However, the world's true encounter with FDI began after World War II, when the United States implemented the Marshall Plan in 1947 to rebuild a Europe that had exhausted its economic resources and was left in severe financial distress. Rather than providing loans or direct monetary aid, the Plan facilitated the transfer of goods, services, technology, and infrastructure investments to Europe through American corporations operating on site.

Since the 1980s, with the widespread adoption of liberalization and economic opening programs, FDI has gained momentum alongside globalization. As the economic, social, and political advantages it offered became more evident, FDI expanded rapidly in both scale and scope, ultimately becoming a central focus of nations, international finance, and global investment flows.

The main reasons why host countries attach importance to FDI in their economic policies include its ability to increase capital accumulation, production, and exports; to create employment; to bring along new technologies; to contribute to the development of the domestic labor force; and, unlike portfolio investments, to represent a form of investment that cannot suddenly withdraw from the host country. Therefore, FDI—primarily carried out by MNCs operating in various countries—is regarded as one of the most significant instruments for achieving economic development and reducing external deficits.

For MNCs, the primary objectives of undertaking FDI include maximizing market share and profitability by taking advantage of access to cheap and/or skilled labor, the availability of raw materials, and the profit opportunities offered by unsaturated markets (Karagöz, 2007).

While FDI was initially concentrated in developed countries, since the late 1980s developing economies have increasingly succeeded in attracting foreign investments. This shift can be attributed to several factors, including the market opportunities that emerged after the dissolution of the Soviet bloc, the liberalization-oriented transformation in the perception of the causes and consequences of foreign investments, and the growing recognition of FDI as an effective mechanism for transferring resources to developing countries (Karagöz, 2007; Noorbakhsh, Paloni & Youssef, 2001).

According to the *World Investment Report 2022* published by the United Nations Conference on Trade and Development (UNCTAD), global FDI inflows reached a total of USD 1.58 trillion in 2021. Of this amount, USD 746 billion (47%) was directed to developed countries, while USD 837 billion (53%) flowed into developing economies. In the same year, FDI inflows to Turkey amounted to approximately USD 12.5 billion. Accordingly, Turkey accounted for a relatively small share of global FDI, representing only about 0.8% of the total (UNCTAD, 2022).

A detailed examination of the report reveals that international FDI flows are highly selective, with some countries being considerably more successful than others in attracting foreign investment. This selectivity can be explained partly by the strategic objectives of multinational enterprises (MNEs) and partly by the host countries' structural characteristics, as well as their willingness and efforts to attract FDI. The expected economic and technological benefits summarized above have further increased global interest in foreign investment and positioned the determinants of FDI inflows among the

most frequently investigated topics in the empirical literature (Agiomirgianakis, Asteriou & Papatoma, 2003; Karagöz, 2007; Mien, 2023).

In this context, the study aims to empirically examine the determinants of foreign direct investment (FDI) in Turkey for the period 2000–2020. Specifically, it investigates the potential impact of entrepreneurship, country fragility, human development, gross fixed capital formation, and globalization on FDI inflows. By incorporating both institutional and economic indicators, the study contributes to the literature by offering a multidimensional perspective on the factors shaping FDI in an emerging economy context.

In the following sections of the study, the first part outlines the conceptual framework of FDI; the second part presents the econometric methodology and findings; and the final part discusses the results obtained.

A preliminary version of this paper was presented at the 25th Finance Symposium (Türkiye) and published in its proceedings book. The present version has been substantially revised and expanded for journal publication.

2 CONCEPTUAL FRAMEWORK

Foreign investment can be defined as the transfer of capital funds from one national economy to another. Such movements of capital generally take place in the form of short-term portfolio investments (such as stocks and bonds) or long-term foreign direct investments. The focus of this study is on long-term foreign direct investment (FDI) (Kurtaran, 2010).

This section presents the conceptual framework of foreign direct investment (FDI) by examining its definition and scope, the main theoretical approaches, underlying motives, types, key determinants, and the principal criticisms directed at FDI.

2.1 Definition and scope of foreign direct investment

Foreign direct investment (FDI), which may involve a physical investment in a foreign country (Borensztein et al., 1998, p. 117), represents an international investment category reflecting the objective of a resident entity in one economy to obtain a lasting interest in an enterprise resident in another economy. The notion of *lasting interest*

implies the existence of a long-term relationship between the investor and the enterprise and a significant degree of influence by the investor on the management of that enterprise (IMF, 1993; OECD, 1996).

FDI essentially refers to a net investment made by a company to acquire a lasting managerial interest—defined as at least 10 percent of the voting shares—in an enterprise operating in an economy other than that of the investor (Çakır & Küçükkoçaoğlu, 2022).

2.2 Theories on the determination of foreign direct investment forms

Having defined the nature and scope of FDI, the following section discusses the main theories developed to explain its occurrence and underlying motivations. Theoretical approaches to foreign direct investment, developed since the 1960s, can be grouped under the following main categories.

2.2.1 Eclectic theory (OLI Paradigm)

As noted by Fahed (2013), Dunning's eclectic paradigm does not constitute an independent theory; rather, it represents a comprehensive framework that integrates different theories of international production, providing an overall explanation of the factors that motivate multinational corporations (MNCs) to engage in foreign direct investment.

According to this framework, foreign direct investment takes place when the external market offers a location advantage (L) and the firm simultaneously possesses ownership (O) and internalization (I) advantages (Dunning, 1979).

The **ownership advantage** refers to the firm-specific assets, capabilities, and competitive strengths—such as low-cost production capacity or prior experience in foreign investment—that enable a multinational corporation (MNC) to compete effectively with local firms in the host country (Güngördü & Yılmaz, 2016). The **location advantage** encompasses factors related to the host country, including the quality of production factors, market size, labor costs, and government policies toward foreign investment. Finally, the **internalization advantage** reflects whether it is more profitable for the MNC to exploit its ownership and location advantages internally rather than through external partnerships or licensing arrangements (Denisia, 2010).

2.2.2 Internalization theory

The Internalization Theory generally suggests that when the markets in which firms operate involve certain risks and imperfections that may adversely affect economic activities, companies may seek to maximize their gains by shifting their investments to other markets in order to avoid such inefficiencies (Yapraklı, 2006).

2.2.3 Transaction cost theory

According to this theory, developed by Oliver Williamson, firms act based on the principle of minimizing production and transaction costs, and they determine their governance structures accordingly (Kurtaran, 2010).

2.2.4 Location theory

In their 1979 theory, Hood and Young (1979) argue that factors such as labor costs, market conditions (such as market size and economic growth rate), trade barriers, and government policies play a decisive role in determining the host country for foreign direct investment. This perspective highlights the importance of macroeconomic and institutional factors in shaping firms' international investment decisions.

2.2.5 Oligopolistic reaction theory

In his work known in the literature as the “Oligopolistic Reaction Theory”, Knickerbocker (1973) explained the timing of foreign direct investments made by American firms through the “follow-the-leader” model, interpreting this phenomenon as a rational response to oligopolistic competition. According to Knickerbocker (1973), the number of firms operating in oligopolistic markets is limited; however, there exists a strong mutual interdependence among them. Any decision made by one firm regarding production, pricing, or sales can significantly affect other firms, potentially leading to market loss, exclusion from the market, or even bankruptcy. Therefore, firms must closely monitor their competitors' actions, anticipate their future strategies, and develop either defensive or offensive responses to maintain or increase their market share—or simply to

survive. When the subject involves multinational enterprises and foreign markets, an FDI undertaken by one competing firm will, in turn, lead other oligopolistic firms to follow and make similar investment decisions.

2.2.6 Strategic behavior approach

In this approach, which focuses on the firm's competitive capacity, competitive behavior plays a crucial role. Since such behavior will inevitably reach a saturation point, firms strive to exploit their advantages to the maximum extent before being caught up by their competitors (Aydın, 1997).

2.2.7 Product life cycle theory

The Product Life Cycle Theory, developed by Raymond Vernon (1966), was essentially formulated to explain the post–World War II increase in foreign direct investments by U.S. multinational corporations. Rather than focusing on the cost of production factors, the theory emphasizes technological innovations and changes in local and international demand structures over time as the main drivers of these investments.

According to Vernon (1966), every new product passes through three distinct stages of its life cycle: the new product stage, the mature product stage, and the standardized product stage. Decisions regarding where production should take place—domestically or abroad—are made in line with the characteristics of each stage of the product's life cycle. In the innovation stage, the product has not yet become standardized, and its inputs cannot be precisely determined. During the maturity stage, demand for the product begins to increase. If foreign markets also exhibit a rising demand for the product, firms may decide to undertake foreign direct investment by taking cost factors into consideration. In the standardization stage, the product has reached full maturity and has already established its position in international markets.

2.3 Motives for foreign direct investment

A wide range of factors have been discussed in the literature regarding the reasons for undertaking and attracting foreign direct investment (FDI), resulting in a substantial

body of research on the subject. It is useful to examine the determinants of FDI along two main dimensions: from the perspective of multinational enterprises (MNEs) and from that of the host countries. The motives of multinational enterprises often differ from the macroeconomic priorities of host countries, leading to diverse and sometimes conflicting outcomes.

2.3.1 Foreign direct investment decisions of multinational companies

According to Seyidođlu (2016), the reasons why multinational enterprises (MNEs) decide to undertake foreign direct investment (FDI) can be summarized as follows:

Availability of raw materials:

Most traditional foreign investments are based on this reason. Since raw material resources are not evenly distributed across the world, processing facilities are usually established in locations where these resources are found.

Integrating operations:

Bringing together the production process from its initial stage to the final product under the same management is referred to as vertical integration. Horizontal integration, on the other hand, refers to the consolidation of production activities at the same stage under a single management structure. As Kindleberger pointed out, whether in the form of vertical or horizontal integration, when conducting certain stages of production in other countries provides a cost advantage, the expansion of operations across different countries emerges as a natural outcome.

Non-transferable knowledge:

FDI becomes inevitable when a developed production method or patent must remain exclusively within the company and is not suitable for sale or external transfer.

Protecting reputations:

Companies whose reputations and brand names are well established beyond national borders may prefer to carry out production abroad by themselves rather than licensing it to foreign producers. This is mainly due to concerns that the same level of quality may not be maintained under licensing agreements, which could potentially harm their product quality and brand reputation.

Exploiting reputations:

In this case, the objective is not merely to protect the company's reputation but to capitalize on it by leveraging brand recognition and consumer trust to gain competitive and financial advantages.

Protecting secrecy:

When confidentiality regarding production-related information is of critical importance, firms may prefer foreign direct investment over licensing agreements, due to concerns that licensees may not exercise the same level of care in preventing the leakage of proprietary knowledge.

Product life-cycle hypothesis:

After the development of a new product is completed and the domestic market reaches its saturation point, firms tend to shift production to foreign markets—particularly those that are less penetrated or less competitive—in order to sustain profitability and continue growth.

Oligopolistic market structure:

In markets dominated by a few large firms, the decisions of one company inevitably influence the others. Consequently, when one firm undertakes foreign investment, its rivals tend to follow suit through FDI in order to avoid losing market share and to maintain their competitive position.

Avoidance of import tariffs and quotas:

Exporting firms often choose to establish production facilities within the host country to circumvent import tariffs and quotas imposed by the importing nation, thereby maintaining access to and control over that market.

Avoiding domestic regulations and restrictions:

This is an important factor influencing firms' expansion into international markets. Companies seeking to escape strict legal regulations and environmental protection standards in their home countries tend to choose host countries with more flexible regulatory frameworks and lower environmental requirements for production.

Following the firm's clients (*symbiotic relationships*):

In some industries, firms need to follow their customers geographically. When their clients invest abroad, these firms also establish subsidiaries or offices in the same regions to maintain close business relationships and ensure service continuity.

International diversification of investments:

When production is limited to a single market, cash flows may become relatively unstable. Firms can partially balance this through product diversification; however, such diversification cannot eliminate systematic risk. Since national economies do not fluctuate in the same direction, companies seek to reduce this risk by diversifying their production activities internationally.

Use of cheap foreign factors:

Labor and natural resource costs vary significantly across countries. Therefore, producing labor- and resource-intensive goods in locations where these factors are abundant and inexpensive has a cost-reducing effect.

Access to foreign technology:

In recent years, technological innovations and advancements in both production and management have accelerated, reducing the importance of unskilled labor in the value creation process. Consequently, multinational enterprises have decreased their investments in such labor-intensive resources, while FDI aimed at acquiring advanced knowledge, technology, marketing, and managerial techniques has gained increasing importance.

2.3.2 Efforts of countries to attract FDI

Today, both developing countries that lack sufficient savings to ensure capital accumulation and developed economies prefer to attract FDI rather than rely on portfolio investments—often referred to as “hot money”—or external borrowing, due to the potential risks associated with these forms of capital. This preference stems from the expectation that FDI will generate not only economic but also social and political benefits.

As will be discussed in more detail below, FDI not only contributes to the existing stock of capital but also creates employment, reduces balance of payments deficits, provides immediate access to new technologies that can benefit local firms, and offers advantages such as training managers and employees who may later join domestic enterprises (Çakır & Küçükkoçaoğlu, 2022).

Economic growth:

A review of the relevant literature shows that FDI influences economic growth in two main ways: directly, through capital investments and labor expansion, and indirectly,

through total factor productivity—via channels such as increased labor productivity, new technologies, and the accumulation of knowledge (Çakır & Küçükkocaoğlu, 2022).

Closing the savings gap and capital accumulation:

For developing countries such as Turkey, external financing sources are considered the most effective means of overcoming the lack of capital accumulation arising from domestic savings shortages that constrain new investments and economic growth. For this purpose, countries utilize both traditional external financing instruments offered by foreign actors and alternative private capital inflows that do not create debt obligations, such as international portfolio investments and FDI. Among these alternatives, FDI is recommended by various international organizations and consultants as a source of external finance, since it provides less volatile and longer-term capital inflows (Nunnenkamp & Spatz, 2004).

Employment growth:

One of the main reasons why countries implement policies to attract FDI is to increase employment. The establishment of new production facilities as a result of FDI plays an important role in reducing unemployment by creating new job opportunities (Karagöz, 2011).

On the other hand, if the inputs used in production by foreign investors are sourced from domestic producers, the resulting increase in demand will lead to higher input production and, consequently, to greater employment. Therefore, FDI can contribute to employment both directly—through the establishment of new production facilities—and indirectly, by stimulating job creation through backward linkages in the domestic economy (Koç Aytakin, 2019).

Effects on the balance of payments:

In the current account of the balance of payments, deficits that cannot be financed through the financial account are typically covered by short-term portfolio investments and reserve assets. However, portfolio investments, which can easily exit the country during periods of economic or political instability, are not considered a sustainable method for financing current account deficits in the long run, as they may further deepen the fragility or crisis. Reserve assets, on the other hand, are generally preserved for use during crisis periods. Therefore, when domestic production factors cannot be mobilized to the desired level, FDI—which does not create debt obligations—is regarded as an effective instrument for financing current account deficits (Göçer & Peker, 2014).

FDI has three potential effects on the balance of payments. First, the realization of FDI generates a one-time positive contribution in the form of a capital inflow to the host country. Second, when FDI is market-seeking in nature, it can lead to a reduction in imports, thereby improving the current account balance. Third, when FDI is primarily export-oriented, it contributes to the inflow of foreign exchange earnings, helping to reduce the current account deficit. However, for this contribution to materialize, it is important that foreign exchange outflows resulting from FDI do not exceed the foreign exchange inflows generated by it (Göçer et al., 2012). Hence, the overall impact of FDI on the balance of payments depends on its structural composition and the nature of its linkages with the domestic economy.

Effect on national production:

When FDI takes the form of partnerships with domestically owned firms in the host country, it can contribute to their growth by enhancing their technological capabilities, enabling them to identify and seize new investment opportunities, and supporting their export expansion (Çinko, 2015).

In particular, export-oriented FDI can promote exports by helping local firms gain access to international markets and integrate into global value chains (Çakır & Küçükkoçaoğlu, 2022).

Acquiring new technologies and managerial skills:

FDI can facilitate the transfer of technological capabilities and managerial skills to the host country. In this way, technology diffusion occurs across countries, as multinational enterprises (MNEs) bring their research and development (R&D) methods, management know-how, and accumulated experience to local firms (Seyidoğlu, 2003).

When domestic firms are able to benefit from the R&D activities and technological resources of MNEs, this may lead to long-term improvements in productivity, efficiency, and profitability within the host economy (Koç Aytakin, 2019).

Furthermore, FDI can create backward and forward linkages, providing technical assistance to local suppliers and customers, while the increased competition it generates can encourage domestic firms to operate more efficiently and adopt new technologies (Rodriguez-Clare, 1996; Blomström et al., 1994). These channels demonstrate how FDI can generate broader development spillovers beyond capital inflows.

According to the OECD (2000) report, foreign direct investment (FDI) contributes to economic development in the host country by enhancing total factor productivity and resource-use efficiency through the following channels

- The direct transfer of more advanced technology and organizational practices to multinational enterprises (MNEs) operating in the host country,
- The transfer of technological knowledge to domestic enterprises,
- Supporting the development of human capital,
- Facilitating integration into global trade networks,
- Contributing to the creation of a more competitive business environment,
- Promoting institutional development, and
- Improving environmental and social conditions (Çakır & Küçükkoçaoğlu, 2022).

2.4 Determinants of foreign direct investment decisions (UNCTAD)

In the 1998 World Investment Report, titled “*Trends and Determinants*” and prepared by UNCTAD as a guiding reference, the factors influencing FDI (or FDI determinants) are classified under three main categories: the policy framework, economic determinants, and business facilitation (UNCTAD, 1998).

According to this analysis, economic, political, and social stability are placed at the forefront of the policy framework. It would not be an overstatement to argue that, for multinational enterprises (MNEs), stability plays a decisive role in determining a host country’s attractiveness for FDI. Moreover, since FDI is primarily an economic activity, economic stability alone is not sufficient; political and social stability are also indispensable conditions. As will be discussed in later sections of this study, the absence of stability increases a country’s vulnerability and exposes its economy to potential crises.

The economic determinants are categorized under three subheadings: market-seeking, resource-seeking, and efficiency-seeking motives. The third component, business facilitation, encompasses factors related to the ease of doing business and the creation of an attractive investment environment (UNCTAD, 1998).

As discussed above, the determinants influencing FDI decisions, both from the perspective of MNEs and host countries, have evolved into a more complex and dynamic structure that goes beyond the factors outlined in the UNCTAD report.

In today's global economy, the framework outlined by UNCTAD (1998) has expanded well beyond its original scope. Factors such as entrepreneurship capacity, country fragility, human development, gross fixed capital formation, and globalization now play a central role in shaping both the attractiveness and sustainability of FDI. Entrepreneurship, for instance, increases the dynamism and innovative capacity of local markets, helping to create an environment favorable to foreign investors (Acs, Desai, & Hessels, 2008). In contrast, higher country fragility tends to raise perceptions of political and financial risk, which may discourage capital inflows (Busse & Hefeker, 2007). Human development indicators—education, health, and quality of life—enhance labor quality and support productivity (Noorbakhsh, Paloni, & Youssef, 2001). Similarly, gross fixed capital investment improves infrastructure and supports the long-term sustainability of FDI (Asiedu, 2006). Globalization reduces barriers to international trade and investment, encouraging firms to expand their operations abroad. It facilitates the free movement of capital, technology, and knowledge across borders, thereby strengthening economic integration and interdependence among nations. In this context, globalization creates opportunities for multinational companies to coordinate and integrate their production processes internationally, fostering deeper investment linkages and expanding possibilities for cross-border cooperation (Chirila-Donciu, 2013). Overall, the determinants of FDI are now understood not only through macroeconomic variables but also through a broader socioeconomic perspective.

2.5 Forms of foreign direct investment

When a MNE decides to undertake a FDI, it must also determine the mode of entry into the foreign market. The main approaches, which will be discussed in greater detail below, include: establishing a joint venture with one or more local firms, setting up a wholly owned subsidiary, merging with or acquiring an existing domestic company, or forming a strategic alliance with one or several partners (Hill & Hult, 2019; Dunning & Lundan, 2008).

2.5.1 *Joint venture*

FDI can take the form of joint ventures established with one or more local firms. A joint venture refers to an arrangement in which two or more companies collaborate to pursue a specific product or market opportunity. Firms may combine their complementary skills and resources to achieve objectives that would be difficult to attain independently. In some cases, joint ventures are encouraged or even required by host-country governments, which seek to enhance the managerial and technological capabilities of domestic firms through cooperation with foreign partners. From the investors' perspective, joint ventures can be attractive because they reduce the risks associated with entering new markets, enable smaller firms to compete with larger ones, and facilitate access to advanced technologies (Geringer & Hebert, 1991; Hill & Hult, 2019).

2.5.2 *Mergers and acquisitions*

Also known as corporate marriages, mergers refer to a strategy in which two or more companies combine all of their assets and resources, cease to exist as independent legal entities, and form a new company that enters the market as a single organization. Such mergers are often pursued to achieve economies of scale, enhance market share, or strengthen competitive advantage (Gaughan, 2018).

2.5.3 *Strategic alliances*

One of the most common ways multinational firms expand abroad is by forming strategic alliances with foreign partners. In their simplest form, these alliances may involve exchanging minority equity stakes to strengthen mutual trust and coordination, though such arrangements are usually classified as portfolio investments rather than FDI.

In more advanced forms, firms may create joint ventures to engage in production or service activities together, or they may collaborate through joint marketing and distribution agreements, allowing one partner to represent the other in particular markets. Although these partnerships can enhance market access and reduce entry costs, they may also raise competition concerns in some cases (Hill & Hult, 2019; Gaughan, 2018).

2.6 Criticisms of foreign direct investment

A review of the relevant literature reveals a general consensus that FDI has positive effects on host-country economies, and that the number of studies supporting this view is quite substantial.

However, several scholars argue that if FDI is not properly guided and managed in line with a country's specific conditions and development priorities, it may generate drawbacks that cannot be ignored. In fact, under inappropriate policy frameworks, FDI may even lead to socio-economic difficulties rather than contributing to development.

This section therefore focuses on the potential adverse effects of FDI.

According to Ögütçü (2003), if development through foreign direct investment (FDI) rather than domestic resources becomes a country's main policy, the growing inflow of foreign capital over time may lead to a shift in control or privileges in favor of multinational corporations (MNCs), particularly in strategic sectors of the economy. Therefore, instead of viewing FDI as the primary source of economic growth and development, it should be regarded as a useful complement to the level of fixed-capital formation financed by domestic resources.

Krugman (2000) notes that during periods of financial crisis, multinational corporations (MNCs) may accelerate the sale of assets by domestic investors facing liquidity shortages and acquire local firms through foreign direct investment.

This suggests that, in times of economic distress, FDI may shift from being a long-term development instrument to an opportunistic means of acquiring undervalued domestic assets.

According to Azman-Saini et al. (2010), certain types of foreign direct investment (FDI) may initially lead to layoffs, or the automation processes introduced through new foreign technologies may not necessarily result in higher levels of employment.

Azman-Saini et al. (2018), in their study covering 48 developing countries during the period 1996–2013, examined the impact of FDI inflows on R&D activities and found that foreign investment tends to discourage domestic R&D efforts. They concluded that this suggests foreign R&D investment may act as a substitute rather than a complement to local R&D initiatives.

Another criticism concerns the origin of intermediate goods used by foreign investors. When foreign firms do not source intermediate inputs from the host economy,

the country's balance of payments may be adversely affected. Todaro and Smith (2012) argue that although foreign capital may improve the host country's foreign exchange reserves in the short run, this positive effect can reverse in the long run due to the increasing reliance on imported intermediate goods.

One of the most commonly cited advantages of FDI is its contribution to the accumulation of capital stock. However, Yeldan (2008) argues that foreign direct investment may create an artificial abundance of foreign currency, which stimulates consumption expenditures while discouraging domestic savings, ultimately leading to a decline in total fixed capital investment within the country.

Adam (2000) argues that FDI may lead to a decline in domestic production, disrupt the technological development processes of local firms, and that increasing foreign ownership in the economy can distort the host country's economic and social structure.

Another criticism directed at FDI concerns its potential to increase environmental pollution in the host country (Zeren, 2015).

3 ECONOMETRIC METHOD AND FINDINGS

This section presents the methodology and model used in the empirical analysis. It also provides explanations, descriptive statistics, and the empirical results concerning the variables and indices representing entrepreneurship, country fragility, human development, fixed capital investment, and globalization, which are considered to influence FDI inflows into Turkey.

3.1 Econometric methodology

In this study, a multiple linear regression method was employed to examine whether entrepreneurship, country fragility, human development, fixed capital investments, and globalization have an impact on FDI in Turkey. The multiple linear regression model includes more than one independent variable (x_1, x_2, \dots, x_p). In this respect, the model is conceptually similar to simple linear regression but contains additional terms (Tranmer et al., 2020). Accordingly, the multiple linear regression

equation is formulated as follows, and the variables are described in Table 1 and the following paragraphs.

$$FDI_i = \beta_0 + \beta_1 OPENED + \beta_2 CLOSED + \beta_3 FSI + \beta_4 HDI + \beta_5 GFCFGDP + \beta_6 KOFGI + e_i \quad (1)$$

Table 1

Description of Variables Used in the Analysis

Variable Name	Definition	Source
FDI	Foreign Direct Investment	World Bank
OPENED	Newly Established Companies	2000 - 2009 Turkish Statistical Institute (TURKSTAT) 2010 - 2020 Union of Chambers and Commodity Exchanges of Turkey (TOBB)
CLOSED	Closed Companies	2000 - 2009 Turkish Statistical Institute (TURKSTAT) 2010 - 2020 Union of Chambers and Commodity Exchanges of Turkey (TOBB)
FSI	Fragile States Index	The Fund for Peace
HDI	Human Development Index	World Bank
GFCFGDP	Gross Fixed Capital Formation (as % of GDP)	World Bank
KOFGI	KOF Globalization Index	KOF Swiss Economic Institute

FDI - Foreign Direct Investment

FDI essentially refers to a net investment made by an investor to acquire a lasting managerial interest—defined as at least 10 percent of the voting shares—in an enterprise operating in an economy other than that of the investor (Çakır & Küçükkoçoğlu, 2022).

OPENED – Number of Newly Established Companies

It represents the annual number of newly established joint-stock and limited liability companies (Anonim and Limited) that started operations in Turkey during the 2000–2020 period.

CLOSED – Number of Closed Companies

It refers to the number of joint stock and limited liability companies in Turkey that were established and operating, but later ceased their commercial activities (closed down) between 2000 and 2020, presented on an annual basis.

FSI – Fragile States Index

The Fragile States Index measures security vulnerability across three phases: pre-conflict, active conflict, and post-conflict situations. The index comprises twelve

indicators of conflict risk that aim to assess a country's level of fragility at any given time. These indicators include: security apparatus, factionalized elites, group grievance, economic decline, uneven economic development, human flight and brain drain, state legitimacy, public services, human rights and rule of law, demographic pressures, refugees and internally displaced persons, and external intervention. A higher index score indicates a higher level of state fragility (Çakır & Küçükkocaoğlu, 2022).

The Fragile States Index, produced by the Fund for Peace, not only highlights the normal pressures experienced by all states but also assesses their capacity to manage these pressures effectively. By emphasizing the security vulnerabilities that contribute to a country's fragility risk, the index makes political risk assessment and conflict early warning more accessible to both policymakers and the public (Çakır & Küçükkocaoğlu, 2022).

HDI - Human Development Index

The Human Development Index (HDI) is a composite measure that summarizes the average achievement in the key dimensions of human development: leading a long and healthy life, being knowledgeable, and enjoying a decent standard of living. The HDI is calculated as the geometric mean of normalized indices for these three dimensions (Çakır & Küçükkocaoğlu, 2022).

Human development is not only concerned with the rise or fall of national income or economic growth, but also with the expansion of people's choices and the opportunities available in their lives. It also relates to the value of the human condition and its improvement. Growth can be achieved through the enhancement of human capabilities — enabling individuals to live healthy lives, receive adequate education, access resources, and utilize the social means necessary for a decent standard of living. Human development can therefore be understood as a process of expanding people's freedoms and creating opportunities that allow them to achieve greater well-being (Javaid et al., 2018).

GFCFGDP - Gross Fixed Capital Formation (% of GDP)

Gross Fixed Capital Formation (GFCF), also known as gross capital formation (formerly referred to as gross domestic investment), consists of additions to the economy's fixed assets together with net changes in the level of inventories. Fixed assets include land improvements (such as fences, ditches, and drains); purchases of plant, machinery, and equipment; and the construction of infrastructure such as highways,

bridges, tunnels, railways, as well as schools, offices, hospitals, private dwellings, and commercial or industrial buildings. Inventories represent goods held by firms to maintain production or business operations in the face of temporary, sudden, or unexpected fluctuations in production or sales, as well as to support “work in progress.” According to Bakare (2011), GFCF represents the portion of current income that is saved and invested to increase future output and income. Ray (2013), on the other hand, emphasizes that GFCF is an accounting concept commonly used in macroeconomics, national accounts, and financial economics, but rarely in corporate accounting. In financial economics, the term is associated with saving motives, the establishment of financial institutions, fiscal measures, public borrowing, the development of capital markets, privatization of financial institutions, and the expansion of secondary markets (Çakır & Küçükkocaoğlu, 2022).

KOFGI - KOF Küreselleşme Endeksi

Since globalization encompasses not only economic but also political, social, and cultural dimensions, relying solely on economic indicators in analyses may lead to misleading results. For this reason, several globalization indices that incorporate all these dimensions have been developed in recent years. Among these, the KOF and KFP globalization indices are the most commonly used in empirical studies due to their suitability for applied research (Hayaloğlu et al., 2015).

The Globalization Index (KOFGI) used in this study distinguishes between the economic, social, and political dimensions of globalization. Economic globalization covers trade and financial integration, while social globalization includes interpersonal, informational, and cultural aspects. The KOFGI is a composite index that measures globalization along these three dimensions on a scale from 1 (least globalized) to 100 (most globalized) for almost every country in the world.

The index was first developed by Dreher (2006), who defined globalization as “the process of creating networks of connections among actors across continental or intercontinental distances, mediated through a variety of flows including people, information and ideas, capital, and goods.” In this sense, globalization is conceived as a process that erodes national boundaries, integrates national economies, cultures, technologies, and governance systems, and generates complex interdependencies. The index was later updated by Dreher et al. (2008) and subsequently revised by Gygli et al. (2019).

The revised KOFGI differentiates between *de facto* and *de jure* measures of globalization. *De facto* globalization captures actual international flows and activities, such as trade in goods and services, whereas *de jure* globalization reflects the policies and conditions that, in principle, facilitate or restrict such flows, such as tariffs or regulatory frameworks. In addition, the updated KOFGI introduces time-varying weights for its subcomponents, allowing the underlying relationships to evolve gradually over time. Overall, the index is based on 43 variables aggregated across different dimensions and the overall index (Çakır & Küçükkocaoğlu, 2022).

3.2 Empirical findings

Multiple linear regression models rest on several key assumptions. The reliability of the estimates depends on whether these assumptions are met. In brief, the model assumes that the error term has a constant variance, a zero mean, and follows a normal distribution. Moreover, there should be no relationship among the error terms — in other words, no autocorrelation. Another important assumption is the absence of multicollinearity, meaning that the independent variables should not be highly correlated with each other.

The Variance Inflation Factor (VIF) test was applied to detect the presence of multicollinearity. VIF values between 1 and 5 indicate that the model does not suffer from serious multicollinearity problems.

Table 2

Results of the Variance Inflation Factor (VIF) Test for Multicollinearity.

Variables	VIF	1/VIF
OPENED (D2)	4.39	0.227789
FSI (D2)	3.17	0.315860
HDI (D1)	2.83	0.353893
GFCFGDP (D1)	2.19	0.456420
CLOSED	1.74	0.575064
KOFGI (D2)	1.37	0.731663
Mean VIF	2.61	

The Breusch–Godfrey Serial Correlation LM Test was conducted to detect autocorrelation, and the results indicate that no autocorrelation exists in the model.

Table 3

Results of the Breusch–Godfrey Serial Correlation LM Test.

lags(<i>p</i>)	chi2	df	Prob>chi2
1	0.725	1	0.3945
H0: no serial correlation			

Since the probability value (Prob > 0.05) is greater than 0.05, there is no autocorrelation in the model.

The Breusch–Pagan–Godfrey LMh test was applied to examine whether heteroskedasticity exists in the model, and the findings confirm that the variance of the residuals is constant.

Breusch-Pagan/Cook-Weisberg test for heteroskedasticity

Assumption: Normal error terms

Variable: Fitted values of FDI

H₀= Constant variance

chi2(1) = 0.63

Prob > chi2 = 0.4288

The Shapiro–Wilk W test was applied to examine whether the residuals of the model are normally distributed, and the results indicate that the residuals follow a normal distribution.

Table 4

Results of the Shapiro–Wilk W Test for Normality of Residuals.

Variable	Obs	W	V	z	Prob>z
error	11	0.96400	0.583	-0.917	0.82042

According to the model results presented in Table 5, an increase in the Number of Newly Established Firms, the Human Development Index, and Gross Fixed Capital Formation positively affects Foreign Direct Investment inflows. On the other hand, the Number of Closed Firms, the Fragile States Index, and the Globalization Index have a negative impact on Foreign Direct Investment inflows.

Table 5*Estimation Results of the Multiple Linear Regression Model.*

Source	SS	df	MS	F (6, 4)	11.99
				Prob > F	0.0155
Model	3.55932375	6	.593220625	R-squared	0.9473
Residual	.197969099	4	.049492275	Adj R-squared	0.8683
Total	3.75729285	10	.375729285	Root MSE	.22247

D. FDI	Coefficient	Std. err.	T	P> t 	[95% conf. interval]	
OPENED (D2)	.2585204	.1165311	2.22	0.091	-.650219	.5820627
CLOSED	-.4069307	.1838773	-2.21	0.091	-.9174558	.1035945
FSI (LD2)	-.2210388	.0515357	-4.29	0.013	-.3641249	-.0779526
HDI (D1)	7.497621	2.463434	3.04	0.038	.6580319	14.33721
GFCFCGDP (D1)	.1083928	.0445704	2.43	0.072	-.0153544	.23214
KOFGI (D2)	-.1722109	.0590523	-2.92	0.043	-.3361664	-.0082554
_cons	.1133652	.1378396	0.82	0.457	-.2693388	.4960693

4 CONCLUSION AND DISCUSSION

In today's global economy, a wide range of financial methods and instruments are available both for countries striving to sustain economic growth and development, and for corporations operating with objectives such as profit and market maximization, global expansion, and competitiveness. Among these, FDI has attracted growing attention in recent years, as it is considered to provide the most favorable opportunities in the long run. However, despite this trend, Turkey captures only about 0.8% of global FDI inflows, indicating a rather weak performance in attracting foreign investment.

Within the scope of the literature review, this study examines the impact of entrepreneurship, state fragility, human development, gross fixed capital formation, and globalization — factors identified as influential in attracting foreign direct investment — on FDI inflows to Turkey.

According to Say (1971), entrepreneurship refers to the reallocation of economic resources from sectors with low productivity to those with higher productivity and production capacity (Ballı, 2018). Therefore, entrepreneurship — which provides the foundation for utilizing production factors through innovation and new methods — plays a significant role in enhancing sustainable economic growth and development (Ballı, 2018).

For the entrepreneurship process — which brings together capabilities, resources, and production factors through efficient scales and coordinated efforts, and which often

takes shape within institutional and organized structures — to emerge, the establishment of companies that are potential candidates for institutionalization, regarded as the fundamental units of entrepreneurship, becomes essential (Brush et al., 2008).

Entrepreneurship, now recognized as one of the fundamental factors of production, is closely monitored through the number and statistics of newly established and closed companies — both as an indicator and a driving force of an investment-encouraging entrepreneurial environment. An increase in the number of active firms generally reflects favorable economic, social, and political conditions that foster investment, whereas a rise in company closures signals the opposite.

Accordingly, this study uses the number of newly established and closed companies as proxies for entrepreneurship to measure its effect on FDI inflows. The analysis reveals that an increase in the number of newly established firms contributes positively to FDI inflows to Turkey, while an increase in the number of closed firms has a negative effect. Moreover, the positive effect of new firm formation appears with a two-year lag. In other words, when foreign investors observe consecutive increases in the number of newly established firms over two years, they interpret this as a sign of improving economic activity and confidence among domestic entrepreneurs. As a result, instead of making immediate investment decisions based on short-term signals, they tend to commit to FDI after observing sustained growth over multiple periods. In contrast, when company closures increase, MNEs react immediately; even a slight rise in closures can serve as a warning signal, prompting them to withdraw or avoid further investment.

In conclusion, if a country aims to increase its inflow of FDI, it is crucial to encourage the establishment of capital companies with institutional and long-lasting structures, such as limited liability and joint-stock companies. Simplifying and reducing the procedures for establishing and operating businesses, providing broad-based financial incentives, and implementing policies to minimize company closures are of great importance.

Furthermore, in order to create a favorable environment for such measures and policies to thrive, it would be beneficial to participate in — or establish — national and international institutional initiatives that promote entrepreneurship. Developing an entrepreneurial culture and spreading it widely across the country can significantly contribute to achieving these goals.

When a multinational enterprise plans to invest beyond its home country, it inevitably takes into account the potential political, economic, and social risks and instabilities that may arise in the foreign market (Seyidoğlu, 2016). An increase in a country's fragility index — a measure commonly used to assess such risks — indicates a higher level of vulnerability. Accordingly, even if some of these risks are not directly targeted at a specific company, they still have a negative and discouraging effect on foreign investment decisions.

Therefore, an increase in FDI inflows can only be achieved through a reduction in and stabilization of the factors that heighten a country's fragility (Çakır & Küçükkocaoğlu, 2022). The second part of the analysis investigates the impact of state fragility on FDI inflows. The results show that rising levels of fragility in Turkey negatively affect the inflow of foreign direct investment.

Hence, to attract more FDI, it is essential to design consistent and long-term policies that ensure multinational enterprises feel secure, while also fostering the perception that economic, social, and political stability exists — and will continue to exist — in the country.

As in the past, low labor costs remain one of the most important determinants of FDI decisions for MNEs. However, technological progress has reduced the share of labor in production on the one hand, while on the other hand increasing the need for a workforce that is skilled enough to internalize and adapt to new technologies. In other words, today MNEs generally require labor that is both affordable and highly qualified.

According to the analysis conducted for Turkey in this study, human development has a positive and substantial impact on attracting FDI inflows. Therefore, to achieve the targeted levels of FDI, policies should prioritize factors that contribute to higher human development — particularly education — and foster improvements in the indicators that raise the Human Development Index (HDI).

Gross Fixed Capital Formation (GFCF), also referred to as gross capital formation, represents additions to the fixed assets of an economy together with net changes in inventory levels. Fixed assets include land improvements; purchases of plants, machinery, and equipment; and the construction of infrastructure such as highways, bridges, tunnels, and railways, as well as schools, offices, hospitals, private dwellings, and commercial or industrial buildings. Inventories, on the other hand, refer to goods held

by firms as a precaution against temporary or unexpected fluctuations in production or sales (Çakır & Küçükkocaoğlu, 2022).

Capital formation is widely recognized in both theoretical and empirical literature as a key determinant of economic growth. It is generally accepted that the primary goal of economic development is to build an adequate stock of capital equipment in order to enhance productivity within the economy (Çakır & Küçükkocaoğlu, 2022).

Owolabo and Ajayi (2013) argue that capital formation plays a significant role in the process of economic growth and development by determining the productive capacity of an economy. They consider the lack of sufficient capital formation as one of the most serious obstacles to achieving sustainable economic growth. Similarly, Tiryaki (2021) emphasizes that fixed capital investments are among the most important driving forces of growth in both the short and long term.

The findings of this study indicate that gross fixed capital formation (GFCF) has a positive effect on FDI inflows to Turkey. Therefore, if Turkey aims to benefit more from FDI inflows, it should attach particular importance to enhancing gross fixed capital formation. However, the prioritization of capital investments should be guided by the areas where foreign direct investments are most needed — particularly in technology-intensive sectors.

One of the aspects examined in this study is the effect of globalization on FDI inflows to the host country. According to the analysis results, during the period under review, an increase in the KOFGI—in other words, higher levels of globalization—has a negative impact on FDI inflows to Turkey. At first glance, this finding may appear counterintuitive. However, the literature frequently discusses the varying effects of globalization across countries.

Many economists, including Stiglitz (2004) and Krugman (2007), argue that the impacts of globalization differ from one country to another. In particular, the lack of adequate economic and institutional structures that enable integration with the global economy tends to diminish the positive effects of globalization on economic growth in developing countries. Globalization can also increase risks and vulnerabilities within national economies, making them more exposed to external shocks. Stiglitz (2004) and Krugman (2007) further contend that not every country benefits equally from open globalization policies, and that nations with weak institutional and economic foundations are more likely to be negatively affected. Similarly, Samimi and Jenatabadi (2014)

emphasize that the adverse effects of globalization in low-income countries stem from the absence of an economic structure capable of benefiting from its potential advantages.

In conclusion, it can be stated that attracting FDI has become a necessity for sustaining economic growth in Turkey. If the goal is to increase FDI inflows and to benefit more from the positive effects of globalization, the country must first strengthen its economic and institutional structures. Moreover, to protect the economy from vulnerabilities as much as possible, the production structure should be shifted toward high value-added sectors.

Ethical Statement

This study did not involve human participants, and therefore did not require approval from an ethics committee. All analyses were conducted using publicly available secondary data.

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Authors' Contribution

Both authors contributed equally to the development of this article.

Data availability

All datasets relevant to this study's findings are fully available within the article.

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