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ECONOMIC REFORMS AND THEIR IMPACT ON FOREIGN INVESTMENT IN TURKIYE

Abstract

This paper tends to analyze major economic reforms taken by Türkiye since 2017, together with the effects of the same on Foreign Direct Investments (FDI). More specifically, it would be an attempt to do so through different policy changes and regulatory adjustments that have been done to introduce several improvements favorable for foreign investors. Among these reforms are actions to improve investment incentives, actions to simplify bureaucratic procedures, and changes brought about by economic stability and policy predictability. The article critically reviews empirical and theoretical perspectives to understand how this model of regionalism has been influenced by FDI inflows and highlights where it has done very well and the sustained challenges it continues to face. This study, while focusing on the characteristics of the recent reforms, will shed light on the dynamics of the economic integration of Türkiye with the world market and, therefore, its effects on future growth and investment.

Keywords: *economic reforms, foreign direct investment, Türkiye, economic policy, regulatory frameworks, investment incentives, economic growth, market liberalization, economic reforms impacting foreign investment*

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İqtisadi islahatlar və onların Türkiyədə xarici investisiyalara təsirləri

Xülasə

Bu yazı Türkiyənin 2017-ci ildən bəri həyata keçirdiyi əsas iqtisadi islahatları və onların birbaşa Xarici İnvestisiyalara (BXİ) təsirlərini təhlil etməyə meyllidir. Daha dəqiq desək, xarici investorlar üçün uyğun bir neçə təkmilləşdirmə təklif etmək üçün müxtəlif siyasət dəyişiklikləri və tənzimləyici düzəlişlər vasitəsilə bunu etmək cəhdi olacaq. Bu islahatlara investisiya stimullarının yaxşılaşdırılması, bürokratik prosedurların sadələşdirilməsi üzrə tədbirlər və iqtisadi sabitlik və siyasətin proqnozlaşdırıla bilməsi ilə bağlı dəyişikliklər daxildir. Məqalə bu regionalizm modelinin XBİ axınının necə təsir etdiyini anlamaq üçün empirik və nəzəri perspektivləri tənqidi şəkildə nəzərdən keçirir, onun harada çox yaxşı iş gördüyünü və üzləşməkdə davam edən davamlı problemləri vurğulayır. Bu araşdırma son islahatların xüsusiyyətlərinə diqqət yetirməklə yanaşı, Türkiyənin dünya bazarı ilə iqtisadi inteqrasiyasının dinamikasına və beləliklə də gələcək artım və investisiyalara təsirinə işıq salacaq.

Açar sözlər: *iqtisadi islahatlar, birbaşa xarici investisiya, Türkiyə, iqtisadi siyasət, normativ çərçivələr, investisiya təşviqləri, iqtisadi inkişaf, bazarın liberallaşdırılması, xarici investisiyalara təsir edən iqtisadi islahatlar*

Introduction

The Influence of Economic Reforms on Foreign Investment in Türkiye.

In recent times, Türkiye has undergone substantial economic reforms to make its market much more attractive and promote more foreign direct investments (FDI). These reforms played a very critical and leading role in reforming the economic landscape of the country and also in determining

the trajectory of foreign investment flows into the country. It is going into depth into the post-2017 era and how it has bolstered economic growth and, of course, FDI in Türkiye.

Evolution of Economic Policies.

A series of liberalization reforms introduced since the early 2000s have dramatically changed the economic environment of Türkiye. These reforms aimed at opening the economy to international markets, minimization of bureaucratic hurdles, and creation of a better climate to bring in foreign investors. One of the critical orientations of these reforms is facilitating the ability of Turkish companies to go international and make the country more open to attracting foreign investments. This conclusion is in line with the assumptions made by A. İkiz (2019) pointed out that successful efforts have been made with Turkish companies to increase their foreign direct investment (FDI) inflows and outflows, which led to further market integration (Ikiz, 2019).

Impact of FDI on Economic Indicators.

The most critical period of 2010-2016 is when, on the one side, Türkiye had to consolidate its post-global financial crisis recovery and, on the other, meet regional geopolitical challenges. Analyzing the effects of FDI on vital economic indicators—such as the Real Effective Exchange Rate and GDP per capita — Aliya Zhkanova Isiks and colleagues (2017) found the results for the Kyrgyz Republic. Thus, the finding has been taken that, despite the instabilities in the global and regional environment, foreign direct investment has remained an essential factor for stabilizing and growing the economy of Türkiye (Isiks, İşıksal, Jalali, 2017: 69-81).

Role of FDI in Economic Growth.

M. Karimov and Davit Belkania (2018) also prove such a positive relationship between FDI inflows and the economic growth of host economies through more empirical support, like that of Türkiye. Therefore, his study for the period 1980 to 2017 unveiled that there was a unidirectional causality from FDI to GDP and that, indeed, foreign investments do bear direct positive impacts on the growth in the economy. This connection substantiates the pivotal effect of FDI in boosting Türkiye's economic output and overall development path (Karimov, Belkania, 2018: 97-101).

Environmental and Energy Considerations.

The reforms imply other sectors as well. Reform implications are also made in the energy sector. Umut Uzar and Kemal Eyuboglu (2019) investigate the impact of economic growth and trade openness - both influenced by FDI - for energy consumption in Türkiye. Accordingly, their findings suggest the need for policy adjustments that direct FDI to sectors harnessing clean technology for energy efficiency and sustainability (Uzar, Eyuboglu, 2019).

Looking Forward.

A further critical factor for the sustenance and increase in foreign investment is the ongoing economic reforms of Türkiye, further focused on liberalization and enhancement of regulatory frameworks. Further, academicians like Ali Acar (2018) have stated that to firm up its market-based economy, Türkiye needs to improve economic freedom and institutional reforms, which will lure in more FDI. Future tasks include deepening these reforms to firmly establish the rule of law, further improve regulatory efficiency, and further create an inviting environment for foreign investors (Acar, 2018).

Investment incentives and regulations.

Towards that end, starting from 2017, Türkiye has entirely renewed the investment incentive system and its regulations in a manner to make them more attractive for foreign direct investments (FDI), which ensures the country's economic growth through investment. Such measures are perceived as part of the overall national strategy to render Türkiye a highly competitive option to global investment.

Overview of recent investment incentives.

Up until 2017, the subject and the priority of the object of the Investment Incentive Programs in Türkiye had primarily been assumed as a general rule towards regional development, strategic sector support, and unemployment targeting; starting with 2017, however, it specifically encouraged investments that would bear new value and added value to the economy, thus making it less import-

dependent and more technology-integrated. Zeynep Karal Önder and Canatay Hacıköylü said that the Investment Incentives Scheme, which envisages strategic investment incentives, aims at triggering investments in high technology and relatively less developed regions in terms of economic development. Tax holidays, customs duty waiver, exemption of VAT, support on social security premium, and subsidy by the government are among the incentives announced. The authors noted that these were strategic incentives that could register a positive significant effect in attracting valuable investments into the targeted sector and region (Onder, Hacikoylu, 2019).

H. Yanikkaya and K. Altay (2023) are presenting a highly detailed empirical analysis of the effects of these investment incentives across the provinces of Türkiye. Their study concludes that the number of incentive certificates does positively and significantly affect provincial economic growth; however, the actual fixed amount of investment and employment that was created by these incentives was not impacting growth in a measurable way. This would, therefore, imply that while some incentives are working, either their delivery is not correctly delivered, or the sectors need to be better targeted (Yanikkaya, Altay, 2023).

Foreign Direct Investment Inflows.

However, in addition to this direct encouragement, Türkiye has also improved its regulatory framework to better the investment climate for foreign investors. In 2019, new laws simplified the bureaucratic process. They secured an investor's rights, which has partly facilitated the entry of foreign businesses into the territory of the Republic of Türkiye.

Sector-Specific Incentives.

Türkiye's incentives are not of a similar strength in all sectors. Most remarkable incentives, however, exist in manufacturing and energy, which are perceived as being critical to the country's economic development.

There are some incentives the government has provided, concerning renewable energy projects, like feed-in tariffs and capital grants, to somewhat encourage the idea of sustainable development and lessen dependency on imported energy.

Results on Regional Development Based on this understanding, a study by Ersin Nail Sağdıç et al. (2021) observed public investment incentives' effects on the regional economic growth of Türkiye. They found a significant impact of incentives on the economic development of most regions. They concluded that the findings reveal government concern and commitment toward covering up regional disparities through targeted financial support (Sagdich, Karash, Yildiz, 2021).

How much the stable and predicted policies of the economic sector will affect the attraction of FDI in Türkiye.

This foreign direct investment (FDI) is significant for bringing in capital, technology transfer, management skills, and export growth it generates in the case of Türkiye.

It is only a case of potential and opportunity; however, to attract FDI, a stable economic environment with predictable policies is required. The coming paragraphs will elaborate on how a stable financial climate and policy predictability have become central in attracting foreign investment to Türkiye. Economic Stability as an Attractor for FDI The substantial importance of economic stability is to attract FDI. The investors will be attracted to a stable environment in which the risks due to currency fluctuation, inflation, and political instability are brought to a minimum. İsmail Şıklar and Merve Kocaman (2018) stressed in their work that macroeconomic stability, exceptionally stable inflation, and actual exchange rates, is a necessary condition for the sustainability and attraction of FDI inflow into the country and, in turn, sustainability of long-term sustainable growth in Türkiye. Their research confirms that insecurity within these regions has in the past bred unwillingness to invest and even goes on to suggest that security within the real and financial markets is a critical necessity to improve FDI inflows (Şıklar, Kocaman, 2018).

Policy Predictability and its Impact.

An equally important requisite is to ensure consistent and predictable policies that will attract foreign investment. Such confidence that emerges from predictable policy frameworks permits the business entities to make decisions supporting long-range planning and investment.

These reforms—Free Trade Zones and liberalization in FDI regulations—combined with policy measures and legislative reforms since the 80s, have played a decisive role in creating an improved investment climate. All these efforts promise investors that the economic policies of Türkiye will be one of continuity and predictability.

Integration into the World Economy.

Its strategic orientation toward liberal economic policies and the geographical and cultural bridge between East and West have usually combined to support Türkiye's effort to integrate with the global economy.

Economic reforms and stabilization programs, however, were central to those initiated in the early 1980s in the creation of a suitable environment for foreign investment. These reform programs have included privatization programs, a reduction of trade barriers, and modernizing its infrastructure, collectively enhancing its attraction as an investment destination.

Challenges and Opportunities.

However, apart from all these positive trends, some continuous challenges are related to political stability and regional uncertainties that affect the country's power to be promoted and remain at high levels of FDI. This, therefore, calls for continued reforms in the strengthening of the judiciary, increasing transparency, and improving the ease of doing business—all of which will be very instrumental in returning Türkiye to its potential of being a magnet for foreign investment.

Conclusion

The economic reforms in recent years have, far more strongly than ever before, been felt in the capacity of Türkiye to attract foreign direct investment. Liberalization and deregulation of the market and improvement of the regulatory framework, combined with strategic investment incentives, have been of great importance in creating an even more favorable environment for investments. However, while these gains had been made, political uncertainty was hitherto hobbling Türkiye's progress, and more reforms were needed in judicial transparency and facilitating business. To sustain and enhance FDI, Türkiye has to continue the furtherance of economic reform that will ensure a stable and predictable policy environment. These efforts are very important not only to attract more foreign investment but also to get sustainable economic growth and development in the more extended period. This will undoubtedly put Türkiye in a much better position among the preferred destinations of global investors if these challenges are confronted well and further reforms are added.

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