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The Determinants of Foreign Direct Investment and Political Emerging Market: Turkey Case

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Abstract
Foreign direct investment (FDI) constitutes a significant part of investment in most industrial and some developing countries. The purpose of Foreign Direct Investment is to use local natural resources, to employ relatively cheap labor, to produce goods close to markets. FDI contributes to a country's capital. But sometimes it is locally funded, in which case it is techniques and management skills that are imported.
FDI is an important instrument for both the USA and EU countries. In this study, data for the years 1993-2010 were used. economic risks in an emerging market in Turkey and the role that FDI level of economic activity on an econometric model is examined.

1. Introduction

Foreign direct investment (FDI) forms a major part of investment in most industrial and some developing countries. Some FDI is intended to utilize local natural resources. Sometimes it is to employ relatively cheap labor, and sometimes to produce goods near to markets, particularly if trade barriers hinder exports. FDI may involve additions to a country's capital, but is sometimes locally financed, so that what is imported is techniques and management skills.

FDI flows have grown in importance relative to other forms of international capital flows, and the resulting production has increased as a share of world output, but it was still only about 8 per cent at the end of the 20th Century. The United States began its role as a foreign direct investor in the late 19th Century, while it was still a net importer of capital. In the years after the Second World War global FDI was dominated by the United States, as much of the world recovered from the destruction wrought by the conflict. The U.S. share is now less than a quarter of the world total and the United States has become a major recipient of FDI from other countries. It became the dominant supplier of direct investment to the rest of the world, accounting for about half of the world's stock in 1960. Since then, other countries have become major direct investors. In the last decade, the emerging market countries such as China, India, Mexico, Singapore, and Turkey have become the most favored destinations for FDI and investor confidence in these countries

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has soared. FDI has grown in importance in the global economy with FDI stocks now constituting over 20% of global GDP. Figure 1 shows the FDI inflows level in three cases which are global (total), developed and emerging markets' FDI. The inflows cover between 1993 to 2010 years. We can easily see that emerging market FDI inflows are more fluctuate than developed market FDI inflows. These fluctuations are mostly related with economic and political problems. Unsurprisingly, developed countries FDI inflows are always higher than developing countries FDI level.

Foreign direct investment has many effects on the economy of a host country. A host country which is permit, either by written agreement or official invitation, government representatives or agencies of another nation to operate, under specified conditions, within its borders. Foreign direct investment effects the income, unemployment rate, prices, export - import, economic growth, credibility of country, balance of payments, and general welfare of the recipient country. The amount of foreign direct investment flowing to developing countries increased in the late of 1980s and now accounts for about 45 percent of global foreign direct investment.(Balasubramanyam, V.N) This surge inward foreign direct investment flows to developing countries largely due to increasing of liberalization movements in developing countries.

As mentioned before developing countries FDI level have increased more than 45 percent so, why the FDI has moved to these countries, how the FDI level affects on developing counties' economy, and the main question is how can a foreign investor decide on his investment? The specific research question is; what conditions are necessary to increase the foreign direct investment? We should consider these FDI flows to developing countries causes and effects then we can make a forecast for future FDI level and the flows of location. Hence, the main considering areas should be the host countries' economic condition (open economy, infrastructure, exchange rate etc.) and the political stability of these countries.

2. Literature Review

Foreign direct investment is commonly seen by economists and policy makers as a premier agent, not only of globalization, but also of economic growth and development. Many economists argue that FD1 improves the welfare of workers in developing countries by increasing the demand for labor and by paying higher wages than prevail locally. Graham and Easterly (2000) concede that models of trade and factor flows based on international differences in factor endowments offer clear predictions as to how FDI effects inequality: FDI should reduce inequality in poor countries, while increasing inequality in rich countries. Naturally, there is no doubt on this idea, if the investments increase the labor demand also increase. However, we cannot implicitly say that if the investments increase the wages are also increase.

A number of theories and perspectives develop to explain the level and pattern of foreign direct investment increases activity since the late 1950s, when the topic starts to receive scholarly attention. Both theoretical and empirical research on the formation of the motivation for foreign direct investment increase emphasizes differing causal variables. A large number of empirical studies on the role of in host

countries suggests that foreign direct investment: an important source of capital, complements domestic private investment which is usually associated with new job opportunities; enhances both technology transfer and spillover and human capital (knowledge and skill) enhancement boosts overall economic growth in host countries. In this manner, FDI is an important economic tool for a host country especially a developing country.

Foreign direct investment level began to increase after 1960's some developing countries because after that time some developing countries chanced their political system and economy policies. In Turkey case, after 1950's the country has chosen more democratic political system then 1960's the economy has been changed to open economy and the economy policies had been turned to liberal economic system. In addition, FDI increases rapidly during the late 1980s and the 1990s in almost every region of the developing countries, revitalizing the long and contentious debate about the costs and benefits of foreign direct investment inflows. Figure 2 shows the limit of FDI investments (FDI investments were limited by the government) in Turkey, actual inflows and outflows level in 1980 to 2005. On the other side, in 1982 Turkey had a military coup (this coup changed the incumbent government immediately) and the inflows of FDI decrease between in 1982-84. In addition, in 1994 Turkey had a post modem military coup, this coup did not change the government but it forced to make an early election. Therefore, the FDI inflows decrease between in 1994-95. Finally, in 2001 Turkey had a big economic crisis and the FDI inflows decreased sharply. The coalition government decided to make an early election. In these examples show to us economical and political conditions are closely related with FDI inflows.

Thus, one interesting question will be the next step; why Turkey had FDI inflows limit (governments' permission) until 2003? If we would like to understand this policy we should check the background of the FDI level and policy. Before the Republic of Turkey the previous country was Ottoman Empire because of this we should look over the both countries' policies for FDI. First, I shall briefly discuss the Ottoman Empire's FDI history (policies, economic activities, military actions) then the Republic of Turkey's.

The history of FDI in Turkey is started by the Ottoman Empire with the capitulations. Capitulations of the Ottoman Empire were contracts between the Ottoman Empire and European powers, particularly France, UK and Italy. Turkish capitulations were generally bilateral acts whereby definite arrangements were entered into by each contracting party towards the other, not mere concessions. The capitulations were grants made by successive Sultans to Christian nations, conferring rights and privileges in favor of their subjects' resident or trading in the Ottoman dominions, following the policy towards European states of the Byzantine Empire.

The capitulations began at mid 16th century which gave some exceptions for foreign nations and their merchants in economic, social and justice lives.

The Empire also created a system of extraterritorial privilege and immunity for FDI firms. The Ottoman Empire contracted foreign traders exemption from direct taxation and the right to have all disputes involving them settled in special courts

run their by their consular representatives. Foreign companies fundamentally invested in the services sector, especially in financial services such as banking and insurance fields. In addition, they invested in utilities such as railroads, telephones, ports, water, electricity and gas. Furthermore, especially some U.K companies also established cotton plantations and they had large land for farming in western Turkey as the Ottoman legislation allowed foreigners to own land.

Between 16th to mid 19th century these capitulations worked well for the Ottoman side. However, after mid 19th century the Empire lost the control of these capitulations (industrial revolution also accelerated this period). Especially, in 1838 U.K and the Ottoman Empire signed an agreement which means that the Empire land became free trade economy. This trade agreement and the other contracted with other nations included the capitulations, opening the Ottoman economy to privileged presence and activities of foreigners in both the domestic and international sectors. After 1840 the Ottoman Empire could not control the foreign debt and they had insolvency in 1876. Because of this reason, the European creditor nations established the Council of the Public Debt in 1881 for collected the Ottoman Empire's foreign debt. This council began to control significant segment of the national revenues and they extended their power to collected taxes entire the Empire land. Basically, last fifty years of the Ottoman Empire's economic life was totally controlled by either foreigners or by non-Muslim subjects of the Empire who had benefited from the capitulations at the expense of the Ottoman's Muslim majority.

After this time, the capitulations were harmful and humiliating derogations from national sovereignty that have negatively and deeply influenced Turkish attitudes toward FDI. Finally, the capitulations were ended by Treaty of Lausanne in 1924.

After Ottoman Empire, Republic of Turkey's history in FDI has begun in 1923. The new regime gave cautious encouragement to FDI in light of the not good experiences during the Ottoman Empire. Atatürk (1881- 1938, the founder of the Turkish Republic and the first President) paid too much attention for economic growth and development and he mentioned that Turkey was open to FDI as long as the firm, country or merchant accepted national treatment without seeking extraterritorial privileges, respected the country's laws, and yielded mutual gains. In 1924, Turkey had 94 foreign firms which were 23 banks, 12 industrial enterprises, 11 municipal concessions, 7 railroads, 6 mines, and 35 commercial companies. Some of these firms were nationalized, with fair compensation, during this period 1924 - 1929. In Great Depression effected the economic policies all over the world countries. In Turkey case the depression increased the statist economy policy instead of liberal economy. Because of this economic depression the foreign investment was neither encouraged nor opposed after one decade. In addition, some existing foreign companies, however, mostly railroads and municipal public utilities, were nationalized, with fair compensation, during 1930-1939. Thus, we can say that FDI did not play an important role during the first fifteen years in Turkish Republic.

After World War II the world economic policies had begun to change and Turkey's policies also changed such as Law 5583 enacted in 1950 was the first law under the Republic to address the issue of FDI. However, the law conditions were very

restrictive because of this reason the government replaced this law to Law 5821 in 1951. Law 5821 contained fewer restrictive conditions and several needed clarifications about permitted FDI activities but still did not indicate an entirely welcoming attitude toward FDI. As a result, neither Law 5583 nor Law 5821 attracted much FDI. Thus, the government understood that these laws need some regulations for FDI inflows, so Law 6224 accepted in 1954 which lifted all the restrictive conditions contained in Law 5821. However, the new law also did not too much effect to FDI inflows and during 1954-1958; the Turkish economy became increasingly unstable and did not attract much FDI. In addition, during following four years (1958-1960), under the economic stabilization program designed by the IMF and the OECD, the Turkish economy was still too risky for new foreign direct investments. Some existing FDI firms, however, took advantage of the peculiar conditions of the late 1950s, characterized by price controls and shortages of basic goods, to earn extraordinary profits, which fueled the hostility toward FDI in Turkey. In 1960, the first military coup took over the government and this action also hamstrings the FDI inflows in Turkey. The cumulative total FDI (stock) was $17.3 million until 1960. (Erdilek, Asim 2005, Istanbul)

During 1960s and 1970s, the political and economical instability and the military coups blocked the foreign investment. In other words, until the mid-1960s, several coalition governments and two abortive military coups showed in Turkey to be politically unstable in its second experiment with democracy. The relative political stability of second half of the 1960s ended with another military intervention in 1971.

On the other side, during this period the entry of new foreign firms became exceedingly difficult and time-consuming. The bureaucracy was also harmful such as a prospective foreign firm could be forced to get more than 20 signatures from various official authorities in order to receive FD1 permission, which could take as long as three years. In addition, during 1974 - 1979 also witnessed rising political instability and widespread violence between political factions and ideologies terribly effected the foreign direct investment. Besides, in 1978 Turkey had a balance of payments crisis then many FD1 firms left from Turkey in 1979, as the number of FDI firms dropped from 106 to 91.

Unfortunately, Turkey began 1980s with military coup again. After this coup, in 1981 the government regulated some laws which were related with FDI. Creation of the Foreign Investment Department (FID) in the Office of the Prime Minister signaled a welcoming attitude toward FDI. The FID streamlined and simplified the FDI approval process but within narrow limits. After the mid-1980s, the FID lost its initial drive to boost FDI, becoming the General Directorate of Foreign Investment (GDFI), located in the Undersecretariat of the Treasury, where it is currently. During 1980-1983, the cumulative total of approved FDI (stock) was $932 million for 185 FDI firms. Basically, FDI inflows began to rise only in the late 1980s, but averaged a mere $168 million annually during the decade.

In 1990s called failure decade for Turkey in terms of the economics and political stability because Turkey had 9 coalition governments in 10 years, with the average life span of government less than 18 months. Furthermore, economic growth also

fluctuated with sharp rises and falls, including a financial crisis in 1994, followed by a severe recession. In January 1996 Turkey became a member of Customs Union with the EU but could not create a significant effect in FDI. Meanwhile, the Turkish economy reached worsen economic condition in mid-1996. when it seemed to be on a knife-edge between hyperinflation and a government default on spiraling domestic currency debts. On 6 December 1996, the Financial Times wrote: "Turkey's economy seems to be in a perpetual state of quasi-crisis. Heavy inflation, extortionately high interest rates, and one of the world's most worthless currencies are all symptoms of profound imbalances, themselves caused by unsustainable public finances." Nevertheless, in the 1990s, FD1 inflows averaged $772 million annually, no doubt benefiting from the global FDI boom. In 1999 and 2000 Turkey had some policies and regulations in FDI inflows with some international organizations like EU and World Bank. For instance, in January 2000, an economic reform program was launched by the three-party government with the financial support of the IMF and the World Bank. Unfortunately, this program failed following the consecutive economic crises of November 2000 and February 2001. Even worse, the coalition government collapsed in 2002. Lack of consensus on economics and social policies among the coalition partners during 1999- 2002 deprived Turkey of potential FDI inflows. During 1980-2002 government permission was $35 billion for FDI inflow and the actual inflow (cumulative) was almost $15 billion.

The incumbent government's political party (AKP) won the 2002 election (also they won the 2007 election) made a significant improvement in the FDI environment first by bringing political stability and second by providing a clearly pro-FDI official stance lacking in the past. The government recognizes the importance of FDI as an essential factor in the Turkey's economic development and they also controlled the economic stability such as controlling the high inflation rate. The main regulation on FDI is the enactment of Law 4875 in June 2003 to replace Law 6224 was a crucial step forward. Law 4875 gives really important rights and regulations to the foreign investors such as grants foreign investors' full convertibility in transferring their capital and earnings, not restriction on FDI in any sectors, guarantees national treatment to foreign investors, bans nationalization without fair compensation, allows foreign investors to own property without any restrictions, and recognizes foreign investors' right to international arbitration. After these regulations, relatively sustainable economic and political conditions positively effect the FDI level and FDI inflows have begun to increase significantly after these regulations. In 1990 Turkey's FDI stock was almost 11 billion dollars, in 2007 was 22 billion dollars. Finally, Turkey has eliminated the fear of foreign direct investment in 2003 and she prepared the new policies for improving the FDI level during the last decade.

There is no consensus for FDI effect on a host country. On one hand, many would argue that, given appropriate policies and a basic level of development, foreign direct investment can play a key role in the process of creating a better economic environment. On the other, potential drawbacks exist, including a deterioration of the balance of payments as profits repatriate and negative impacts on competition in national markets. Most of the research focuses on market potential and

accessibility, repatriation of profits, infrastructure, and ease of currency for measuring a FDI level or FDI location. However, political stability and economy policies (e.g. openness economy, liberal or capital policies, democracy level, government promotions for investing) are also most important variables for developing countries' FDI level. On the other hand, political variables are important as well as the economic variables because when we examine a developed country which has a large FDI level, we can easily realize that it has a viable and sustainable political system and it has a good status in democracy level.

Quite understandably, incidences of political coups, assassinations, riots, or armed conflicts may exert a dominant negative influence on foreign companies' investment decisions. Indeed, frequent changes of governments and the resultant policy changes can reduce an investor's assets to zero overnight (nowadays Kyrgyzstan example). In the absence of significant reserves of nonrenewable natural resources (e.g. oil), rarely would any foreign investors accept serious political risks or frequent policy reversals. As in previous explanations Turkey encountered some military coups when we look at these periods the FDI level decreased sharply. We can extend the example, but obviously there is a relationship between FDI and political stability. I shall try to use some political instruments in the regression model like democracy level, coalition governments, military coups, selection periods etc. as well as the economic variables like infrastructure of the host country, host country's GDP, openness of the economy to foreign trade, exchange rate instability.

Furthermore, some researchers mention about the political system importance for FDI case such as Crotty, Epstein and Kelly (1998) the "neo-liberal vision," which treats FDI as an agent for spreading capital, technology and management skills across the globe and, therefore, as a crucial agent for economic growth and development. According to this view, any government that wants to partake of these benefits of FDI must implement a set of policies and institutional innovations, including openness to investment, modest regulation, government transparency, modest tax rates, and investor guarantees. Therefore, we can figure out the most important two things for FDI inflows which are political stability and sustainable economy. Basically, every investor wants to a stable economy and naturally stable economy depends on a political stability.

As in the history of Turkey's foreign direct investment began to increase after mid-1980s. Balasubramanyam (1996) shows, 1970s between 1980s period of investment far less than other comparable developing countries, and foreign direct investment increased significantly for most of the after mid-1980s. Hence, a shift in Turkey from a protectionist trade regime to export- oriented economic liberalization in the mid-1980s that foreign direct investment increased significantly. Furthermore, figure 3 shows the cumulative foreign companies in Turkey. After chosen open economic model foreign companies' number began to increase in Turkey. Especially, after mid 1990s the companies' number increased significantly because, Turkey became a member of European Custom Union and Turkish government policies help the investors who want to invest in Turkey.

In general, the sub-themes dealing with host country location factors summarize with market size and economic growth, political and legal environment, host government policies and political stabilities, raw materials and labor supply, level of industry competition in the host country market, geographical proximity and transportation costs, and host country infrastructure.

3. Methodology and Data

Various international organizations and foreign advisors recommend developing countries to rely primarily on foreign direct investment as a source of external finance. Beyond the initial macroeconomic stimulus from the actual investment, foreign direct investment influences growth by raising total factor productivity and, more generally, the efficiency of resource use in the recipient economy. The economists argue that, for several reasons, foreign direct investment stimulates economic growth more than other types of capital inflows. In particular, the inflows of foreign direct investment rate affects from various market characteristics, including market size and growth in market size.

The market size in conjunction with the growth prospects of the host country market important "pull" factors and theoretically positively related to the level of foreign direct investment flows. Because a large market size conducive to crease in demand for the products and services provided by foreign investors. In addition, a large market size allows the attainment of economies of scale, and transaction costs thought to lower in countries with higher levels of economic development.(Erdal F. and Tatoglu E. 2002)

Furthermore, another important part is the market size that shows the stability of the market. This reliability can include political stability, tax regulation, corruption, expropriation, rule of laws, military coups etc. For instance, Turkey has a parliamentary system and the parliament members are selected every five years until 2007 (after 2007 election, the members will be selected in every four years). When we look at the previous incumbent governments (party or coalition parties) work period, most of the governments could not carry on their work until next election. Because some social, political or military commotions blocked the regular political procedure the reasons come from social conflicts, coups, some argument between the coalition government members (or political parties) compel to make early elections. Unsurprisingly, these conflicts are negatively affected the foreign direct investment level at those periods. By all means, investors are looking some safe places for their investments.

The country's social and economic conditions are also an important part for the foreign investors. Most of the investors want to stable and secure place for their investments. Actually, it does not matter the high opportunity for earning money if these place are not secure the losing assets chance can be higher. For instance, nowadays Kyrgyzstan has social problems, Afghanistan has security problems maybe these countries have a good opportunity for the investors but they know that the countries are not safe and the countries have some problems with political stability. Therefore, host countries political and social conditions are also an important part for foreign direct investment. Political stability can be measured

some dummy variables such as election years, military coups, corruption level, and coalition governments.

In addition, trade and investment regime, the openness of the host country, and the adequacy of the basic infrastructure are some of the most important host country-specific determinants of foreign direct investment. Economy openness means the extent to which an economy is open to trade, and sometimes also to inflows and outflows of international investment. A host country's economic policy opens for foreign investors to make investments in this country. Host countries pursuing foreign direct investment and external economic ties expect to fit more easily into global production and trade patterns, and thus more attractive to foreign investors. In an open economy policy makes an easy way for import raw materials or some capital goods for the investment and also to export the finished goods. Thus the openness of the host country economy positively affects from the foreign direct investment levels. Work toward increased openness to foreign trade, so the domestic enterprise sector can participate fully in the global economy. This approach should undertake jointly with efforts to increase business sector competition. A combined approach allows a greater domestic and international openness to business to go hand-in-hand with safeguards against the negative effects of a rise in concentration. Moreover, the successful elimination of global and regional trade barriers makes participating countries more attractive for foreign direct investment, owing to the concomitant expansion of the relevant market.

Similarly; a foreign investor prefers a host country with a good infrastructure, which facilitates communication, transportation and distribution. More FDI is likely to occur in countries with good physical infrastructure such as bridges, ports, highways, etc. It also seems likely that there are some diminishing returns in infrastructure, at least in infrastructure of a specified type. The first bridge is more important than the second than the third ... than the hundredth, and so on. Therefore, especially for countries with poor infrastructure, investing in improvements in infrastructure may be important for attracting FDI. Nonetheless, some countries with poor infrastructure may be unattractive hosts for FDI for a variety of other reasons, and even substantial investments in infrastructure might not bring FDI pouring in. But all else equal, a country with more infrastructures would be expected to attract more FDI (as well as more domestic investment).(Ramkishen S. Rajan, Kenneth A. Reinert, Amy J Glass, and Kamal Saggi. 2008)

The model derives foreign direct investment function (FDI) by starting from the size of domestic market (Y), openness of the economy to foreign trade (X/M), infrastructure of the host country (I), coalition governments (C) as a dummy variable (coalition Government= 1, otherwise= 0). The model derives the summarized foreign direct investment function as follows:

$$\log FDI_i = a_0 + a_1 \log Y_i + a_2 \log X/M_i + a_3 \log I_i + a_4 C_i + f_i$$

Previous literatures suggest a positive relationship between foreign direct investment and the size of domestic market. A positive relationship expects between foreign direct investments and openness of the economy to foreign trade. As before mentions foreign direct investment closely related to openness economy. Foreign investors want to know the infrastructure of the host country because in a

good condition infrastructure means make a good trade. Thus, a positive correlation expects between foreign direct investment and the infrastructure of the host country. On the other hand, a negative relationship expects between the foreign direct investment and political instability. Because we know that an investor wants to a stable market for make a profitable trade.

In the model some variables have natural log form because the entire endogenous variable like size of domestic market, infrastructure expenditure, openness economy etc. related with each other so the model needs some instrumental variables or natural log form variables for more reliable statistical results. Accordingly, the model includes some log level variables.

Foreign direct investment is measured by the actual inflow of foreign direct investment to Turkey. The host country market size measured with gross domestic product. Openness of the economy to foreign trade computed with the ratio of exports to imports. Infrastructure of the host country approximated by share of transportation, energy and communication expenditures in gross domestic product. Finally, political stability measures by a dummy variable which is a cabinet formation like a single party government or a coalition government. All the regression model variables are compiling from the sources of Central Bank of The Republic of Turkey, State Planning Organization, World Bank database, and Turkish Statiscal Institute annual basis for the period 1979-2009 and all observations are in annual form.

4. Results

Table A shows the summary statistics of the variables. GDP and Infrastructure Expenditures formed in million Turkish Liras (based year 1987) and FDI inflows in million dollars (current price). Table B shows the OLS regression results where all variables are natural log form except dummy variable. The results of the regression analysis indicate a statistically significant correlation exists between foreign direct investment and the economic and politic characteristics of the domestic market. The economic predictors explain over ninety percent of the variation in levels of foreign direct investment. With a confidence level of 29%, each predictor statistically significant to the regression model and should remain as part of the explanation. The model attains a good significance F-statistics value (almost zero) and a constructive R-squared value of 0.9248. The R-square value indicates the high amount of explains variance anticipate due to the foreign direct investment. However, the data is time series so the model needs to check serial correlation problems.

Table C shows the serial correlation tests (Breusch-Godfrey LM test for autocorrelation and Durbin-Watson test results) and the result shows the model has an autocorrelation problem. This problem is fixed by feasible GLS (FGLS) procedure and the table shows the new results (solved serial correlation problem results). In addition, the model has tested the heteroskedasticity (via Cameron & Trivedi's decomposition of IM-test and Breusch-Pagan heteroskedasticity test) and the model is heteroskedastic. Table D illustrates the heteroskedasticity tests results and the new model regressed with robust standard errors.

After fixing the all problems the regression equation explains as follows:

The coefficient finds for the gross domestic product variable indicates a statistically positive correlation between the foreign direct investments. If the GDP level increases one percent expected FDI inflows will increase 4.17 percents. The correlation between openness economy and FDI is also positively correlated; if X/M increase one percent the expected FDI will increase almost 1.1 percents. The coefficient indicates a statistically positive correlation between foreign direct investment and infrastructure of the country as anticipates. Increasing one percent expenditure on infrastructure will increased the FDI inflows by 1.75 percents. Finally, coalition government and FDI have a negative correlation. One unit coalition government decreases will be increased the FDI level by 0.75 percents.

5. Conclusion

This paper has examined the role of political risks and economic activities effect on FDI level in an emerging market. These two important points closely related with the FDI level in a host country. The political risk is an important problem both developed and developing countries for their FDI inflows. Clearly, developing countries political stability and economic conditions are more fragile than the developed countries. Hence, developing countries should pay more attention then the developed courtiers for FDI inflows regulations.

Turkey's FDI history has briefly argued and tried to explain the previous FDI inflows limitation by the government (until 2003). FDI level began to increase 1980s all over the world especially in emerging markets. However, Turkey has realized that the importance of FDI mid- 1990s. In addition, during the last decade emerging markets' FDI level significantly increased and their GDP level also increased. For instance, latest IMF announcements show that most of the developing countries both GDP and FDI level increased.

In general, the study of foreign direct investment and location determinants show how four specific economic and political factors affect the foreign direct investment in a host country. As with all empirical research, the study of location determinants regression fails to answer inquiries regarding different regime, micro size (firm) level sources, globalization, military coups, and civil war effects on FDI level or FDI location. In addition, panel data may increase consistency of the model. In other words, panel data might be helpful comparing with different regions FDI level and other independent variables. Moreover, the relatively small sample size and unavailability of variables on some important sectors such as export-oriented versus host market-seeking fails to control the impact on foreign direct investment inflows in Turkey. However, the results establish the factors which may influence foreign investors' decisions in choosing an eligible location for future investments.

Alternative model can be included more micro level data such as firm level survey. The survey should include more specific points like the problem of the firms, expectations from the host country's government, satisfaction level about the infrastructure, political system, taxregulations and so on. Using of these kind of surveys make more clear explanations of the FDI location problem. Therefore, the policy makers and investors can easily figure out what they need to do.

As the discussion of foreign direct investment in Turkey continues, the study in location determinant and its relationship to foreign direct investment hopes to enhance speculation based on an examination of facts and relevant variables as shown in Table A. The results support the expecting findings by providing a basis for future studies.

Table A: Summary Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
FDI’	30	3283.033	6193.71	5	22047
GDP² 11100000	30	6830000	2130000	3880000	
X/M	30	62.95333	9.08958	36.8	81.4
INFRT EXP²	30	85722.6	27045.5	4002.2	11400
Coalition Gov.	30	0.5	0.508547	0	1

[1] *FDI* inflows in million dollars (current price)
[2] *GDP* and Infrastructure Expenditures in million Turkish Liras (based year 1987)

Table B: OLS Regression Results

Sample: 1979-2009 Annual data. Total observations: 30 Dependent Variable log(FDI)			
Variable	**Coefficient**	**Std. Err.**	**Prob.**
Intercept	-100.6995	10.55128	0.000
log(GDP)	4.172826	1.41962	0.007
log (X/M)	1.094362	.9977579	0.283
(Infrastructure Expenditure)	1.7565	1.232757	0.167
Coalition Government	-.7544978	.3535164	0.043
R-squared 0.9248			
F-statistic 76.83			
Prob(F-statistic) 0.0000			

Table C: Feasible GLS Regression Results with corrected serial correlation problems and Breusch-Godfrey LM test for autocorrelation and Durbin-Watson test results

Sample: 1979-2009 Annual data, Total observations: 30 Dependent Variable log(FDI)			
Variable	**Coefficient**	**Std. Err.**	**Prob.**
Intercept	-110.0081	12.71178	0.000
log(GDP)	4.534843	1.513062	0.006
log(X/M)	2.07434	1.045619	0.059
log(lnfrastructure Expenditure)	1.670175	1.319412	0.218
Coalition Government	-.6654952	0.061682	0.064
R-squared 0.8715			
F-statistic 40.69			
Prob(F-statistic) 0.0000			

Breusch-Godfrey LM test for autocorrelation test results:
Number of gaps in sample: 5

lags(p)	chi2	df	Prob > chi2
1	3.198	1	0.0737
2	4.460	2	0.1075
3	5.155	3	0.1608
4	5.244	4	0.2632

Ho: no serial correlation
*We reject H0 model has a serial correlation problem.

Durbin-Watson serial correlation test results:
Number of gaps in sample: 5
Durbin-Watson d-statistic (5, 30) = 1.274122
DW< dL then reject the null hypothesis which means that (rho not equal to zero) model has a serial correlation problem. DW indicates the presence of positive autocorrelation.

Table D: Heteroskedasticity tests results and OLS regression results with fixed both the heteroske dasticity (robust standard errors) and serial correlation problems:

Sample: 1979-2009 Annual data, Total observations: 30 Dependent Variable log(FDI)			
Variable	Coefficient	Std. Err.	Prob.
Intercept	-100.6995	10.64892	0.000
log(GDP)	4.172826	1.405489	0.007
log(X/M)	1.094362	1.010768	0.289
log (Infrastructure Expenditure)	1.7565	1.237714	0.168
Coalition Government	-.7544978	0.408881	0.077
R-squared 0.9248			
F-statistic 71.35			
Prob(F-statistic) 0.0000			

White's test for Ho: homoskedasticity
Against Ha: unrestricted heteroskedasticity
Reject Ho because we have;
Cameron & Trivedi's decomposition of IM-test and Breusch-Pagan Heteroskedasticity Test

Source	chi2	df	P
Heteroskedasticity	19.29	13	0.1144
Skewness	2.61	4	0.6244
Kurtosis	2.86	1	0.0600
Total	25.44	18	0.1132

Breusch-Pagan Heteroskedasticity Test Result:
chi2(l)= 0.10
Prob > chi2 = 0.7475
Reject null hypothesis, it means model has a heteroskedasticity problem.

Figure 1: FDI inflows Global, Developed and Emerging markets 1993-2010

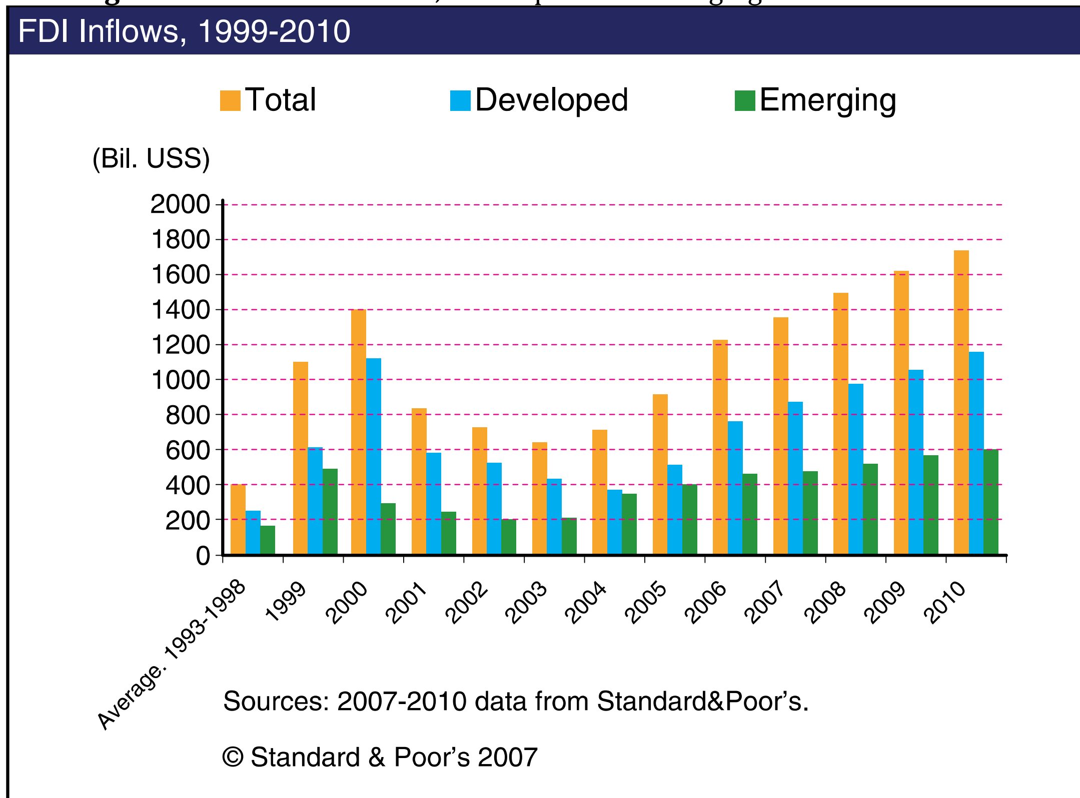
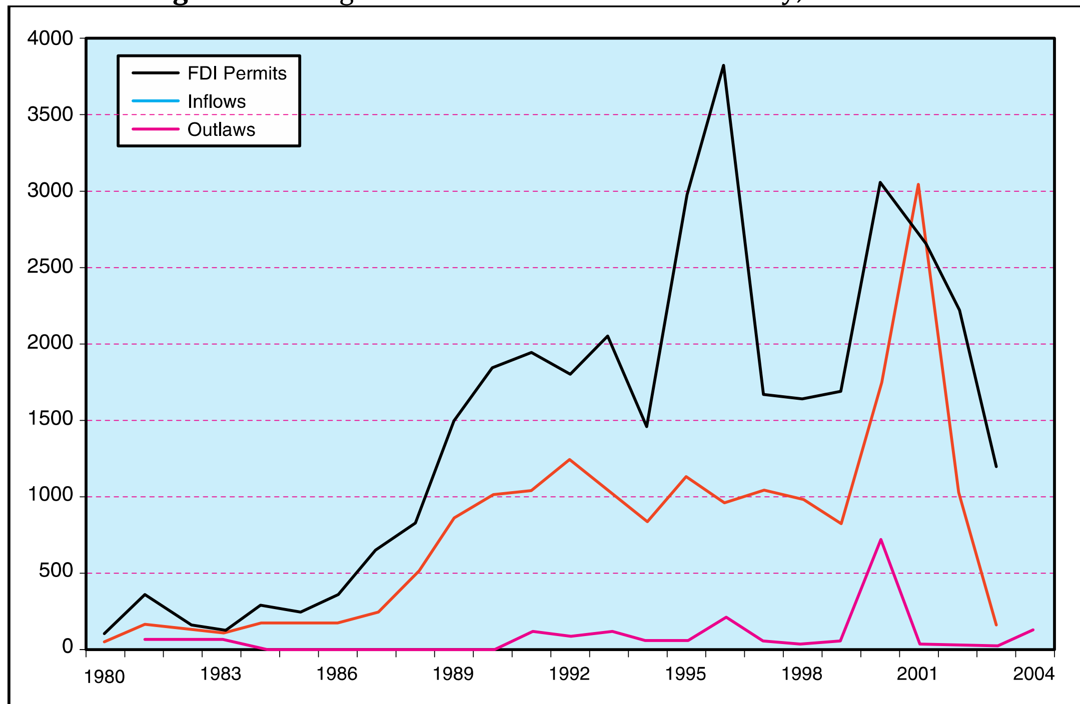
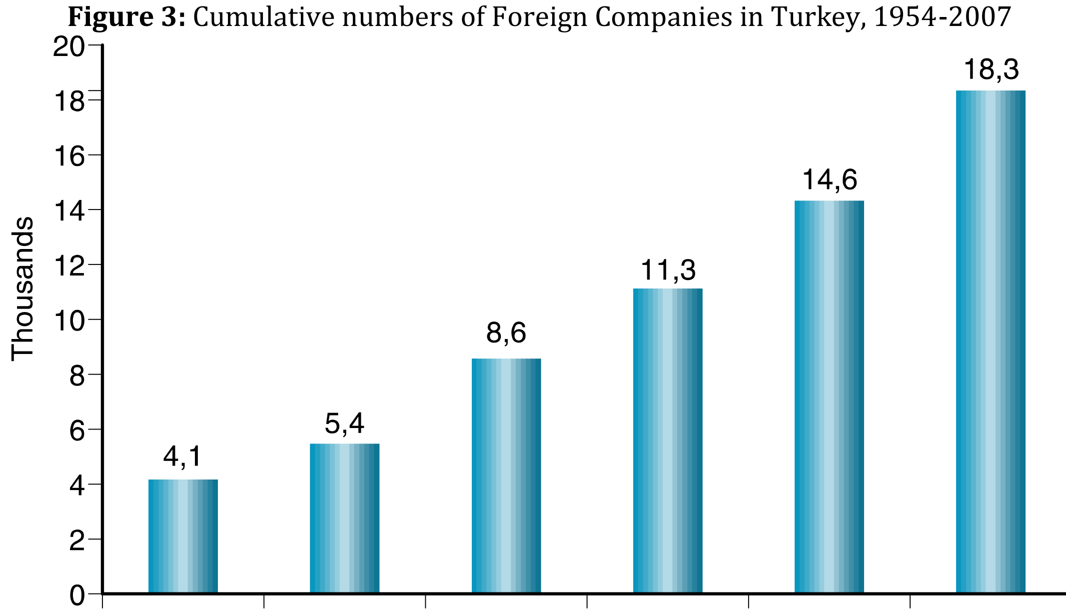


Figure 2: Foreign Direct Investment level in Turkey, 1980-2005



Source: GDFI (Turkey's General Directorate of Foreign Investment), Turkish Treasury

Figure 3: Cumulative numbers of Foreign Companies in Turkey, 1954-2007



Source: http://www.turkisheconomy.org.uk/investment/statistics.htm

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