Available online at www.alphanumericjournal.com

alphanumeric journal
The Journal of Operations Research, Statistics, Econometrics and Management Information Systems

Volume 10, Issue 2, 2022

Received: March 15, 2022
Accepted: December 29, 2022
Published Online: December 31, 2022

AJ ID: 2022.10.01.ECON.03
DOI: 10.17093/alphanumeric.1088005
Research Article

Impact of Political Risk on Foreign Direct Investment with Fourier Approach: The Case of Turkiye

Gökhan Konat, Ph.D. *

Res. Assist, Faculty of Economics and Administrative Sciences, Bolu Abant İzzet Baysal University, Bolu, Turkiye, gokhan.konat@ibu.edu.tr

* Bolu Abant İzzet Baysal Üniversitesi İktisadi ve İdari Bilimler Fakültesi 14030 Gölköy, Bolu, Türkiye

ABSTRACT

Foreign direct investment (FDI) is a desirable form of capital inflows to emerging and developing countries. Such investments are less susceptible to crises and sudden breakdowns. Therefore, foreign direct investment between the political risks of using annual data for the years 1984-2019 which might influence Turkey has been tested. For this purpose, Fourier-based unit root and cointegration analysis are used. As a result of the Fourier unit root analysis, it is concluded that the FDI variable is difference stationary and the political risk variable is level stationary. For this reason, Yılancı et al. (2020), a fractional-frequency Fourier bootstrap autoregressive distributed lag (ARDL) boundary test was applied to the literature. This test, which is in nonlinear form, captures smooth transitional changes in long-term relationships. As a result of the analysis, it is seen that there is a cointegration relationship between foreign direct investments and political risk and the variables come to equilibrium in the long run. In addition, it is seen that the calculated long-term coefficient is positive and significant and the error mechanism works correctly in the short term. Therefore, as political stability is achieved foreign direct investment inflows will increase and the economies of the country will gain an advantage in reaching high levels of financial development. As a result, it is concluded that the Weak Partisan model is valid in the Turkish economy.

Keywords: Foreign Direct Investments, Political Risk, Stationarity, Fourier KPSS, Fourier ARDL, Fractional Frequency Fourier

1. Introduction

Economic development largely depends on profitable investment. However, it is stated that all types of capital imports related to open capital accounts in emerging and developing economies are equally undesirable and have difficulties as they are becoming more and more open. Short-term loans and portfolio investments show a sudden reversal in case of a change in the economic environment or just the investor's perception, causing possible financial and economic crises. Therefore, it is often recommended that these economies try to attract foreign direct investment (FDI) first and be cautious when accepting other sources of financing. Underdeveloped and developing economies, where capital accumulation is insufficient, have to increase domestic and foreign investments in order to reach the targeted growth figures. For this, it is extremely important to have a stable political structure (Demez et al., 2019: p. 496). Foreign direct investment is considered to be much more resilient to crises. For this reason, the question of how countries should follow a policy to attract more such capital flows is sought with foreign direct investments (Busse and Hefeker, 2007:397 - 398). Also, FDI increases business productivity and affects overall competition in an economy. It is expected that developing countries will close the domestic resource and savings deficits, reduce the foreign exchange restrictions, improve the balance of payments, provide employment opportunities and thus accelerate the economic growth rate. There is a consensus among economists that foreign direct investments have a positive effect on economic growth (Nasreen and Anwar, 2014: 24 - 25).

In order to contribute to the increase in the level of social welfare, governments make investments in many areas such as transportation, communication, education, and health. These investments made in different areas cause the development of infrastructure systems and increase the efficiency of investments. Therefore, it causes the foreign direct investment inflow to gain momentum (Tatar, 2020: 208). In general, FDI is expressed as one of the determinants of the export structure, perhaps the leading input (Özbay et al., 2020:571). FDI is defined as the pursuit of multinational enterprises or companies to develop their wealth by taking advantage of opportunities abroad. They achieve this by establishing permanent business interests in the chosen host country (Dunning, 1979:273). FDI increased between 1980 and 1990, and globalization has become its conduit to develop and developing countries around the world. FDI helps strengthen international finance and trade at the microeconomic and macroeconomic levels. In doing so, it considers various variables before choosing investment locations, including economic, political, social, technological, and legal variables. Therefore, investment decisions of multinational companies and how they are affected by political events are binding. Bénassy and Quéré et al. (2007) stated three reasons to explain the relationship between FDI and institutions. First, from a productivity standpoint, good governance and infrastructure can attract foreign investors. Secondly, inefficient institutions with negative situations such as corruption may bring additional costs to multinational companies. Third, the high sunk cost of foreign investment makes investors highly susceptible to uncertainty. One of the most important issues that multinational companies should consider before starting FDI is the expected impact of current and anticipated political situations in potential host countries on business activities and

performance, and consequently on the profitability of investments (Osabutey and Okoro, 2015:417 - 418).

There was a surge in foreign direct investment flows in the 1980s, when commercial banks stopped lending to developing economies, forcing many countries to ease restrictions and offer tax incentives and subsidies to attract foreign capital. Thus, FDI makes a positive contribution to the Gross Domestic Product (GDP) of the host countries through the improvement of foreign exchange reserves and the balance of payments for local economies. The rate of technological advances increases with FDI as foreign firms bring more advanced technology and management practices to host countries (Khan and Akbar, 2013:2). Foreign direct investment is an important issue for developing countries as it brings economic development, access to management skills, financial resources, marketing expertise, and increases employment. The saturation of the domestic capital market drives every country to invest in foreign capital markets in terms of financial internationalization. There are many studies in the literature to determine the factors affecting foreign direct investments. Lucas (1990) discusses that only political risk is an important factor in limiting capital flows. Investments in many developing countries are submitted to great political risks and therefore foreign direct investment inflows are large for politically hesitant countries. In the same way, FDI outflows are large for politically consistent countries to invest in countries with great political risks (Kim, 2010:59). Some of this political risk is also linked to the quality of political institutions. First of all, the quality of bureaucracy is closely related to the institutional strength of a particular country. Likewise, maintaining law and order and reducing corruption levels are important determinants and effects of high-quality institutions (Kaufmann et al., 1999:2 - 4). Logically, it is clear that political risk will have a major negative effect on FDI. Therefore, since political instability will raise the uncertainty in the economic environment, it reduces the inducements of foreign investors to invest in the host country.

According to Kobrin (1979), political risk is the probability of some political events occurring in the host country that may change the probabilities of the profitability of a particular investment. This risk arises when investing in a host country with replacements in its political structure or policies, such as tax laws, tariffs, expropriation of assets, or limitation on the repatriation of profits. Political risk is characterized as the risk of modifies in political soot resulting from a change in government rein, social fabric, or other non-economic factors. This includes the possibility for internal and external conflicts, compulsory purchase risk, and classical political analysis. Risk evaluation includes many factors, including the relationships of different groups in a country, the decision-making process in the government, and the history of the country (Meldrum, 2000:37 - 38). In addition, high-profile terrorist attacks with mass casualties not only highlight the universality of political severity and the importance of political risk as defiance to foreign investors but also display that even developed countries are not strong to political risk and violence. Thus, in the face of such a volatile political environment, it is inevitable that it will negatively affect FDI flows even in countries with developed political risks (Baek and Quian, 2011:62).

Many economic determinants of FDI, such as a large domestic market, sustainable growth, adequate economic and infrastructure development, or high natural resource endowment, are beyond government control. Investment is decisive in stable political

and political environments. By reducing political risk and encouraging stable and liberal policy to attract more foreign investment, host countries can transform local economies into more attractive investment environments, although these are long-term changes. Therefore, with this study, it is desired to investigate the effect of political risk on foreign direct investments with a data set covering the period 1984-2019 for Turkey. For this, Fourier-based analyzes are preferred and the results obtained are expected to contribute to the literature. In addition, it is aimed to obtain stronger results by using the fractional frequency Fourier bootstrap autoregressive lag distributed (ARDL) bounds test, which is a current technique introduced to the literature by Yılancı et al. (2020), and this analysis method makes the study different from other studies in the literature. In the next part of the study, a summary of the literature is given. The third and fourth sections contain the data set and econometric method and findings, respectively. The study is finalized with the conclusion and evaluation part.

2. Literature Review

The relationship between political risk, which is one of the most important sources of concern for foreign investors in developing countries and one of the most important determinants of foreign direct investments, has been frequently investigated in the literature. In this regard, different results have been obtained in studies conducted for various countries or country groups in various periods. The literature summary is presented in Table 1:

Author(s)	Term(s)	Method(s)	Conclusion
Tallman (1988)	1974 - 1980	Regression analysis	Political conditions for the United States play an important role in the foreign direct investment decision process.
Sekkat and Veganzones -Varoudakis (2004)	1990 - 1999	Regression analysis	The decrease in the level of political risk for 72 countries positively affects foreign direct investments.
Jensen and McGillivray (2005)	1975 - 1995	Regression analysis	Political risk affects foreign direct investments positively for 115 countries.
Busse and Hefeker (2007)	1984 - 2003	Arellano – Bond GMM estimator	For 83 developing countries, political risk is significant on foreign direct investment.
Baek and Quian (2011)	1984 - 2008	GMM estimator	Political risks are an important consideration for foreign investors in industrialized markets.
Dutta and Roy (2011)	1984 - 2003	Pooled EKK and FGEKK	For 97 countries, political risk is significant on foreign direct investment.
Quer et al. (2012)	2002 - 2009	Correlation analysis	High political risk is positively associated with China's outward foreign direct investment.
Emir et al. (2013)	1992:1 - 2010:4	Cointegration analysis	Foreign direct investments for Turkey are negatively affected by the political risk variable.
Khan and Akbar (2013)	1986 - 2009	Panel regression analysis	For 94 countries, political risk is significant on foreign direct investment.
Sissani and Belkacem (2014)	1990 - 2012	ANOVA	For Algeria, political risk has no real impact on foreign direct investment.
Lee et al. (2014)	1980 – 2006	Tobit model	There is a link between democratic stability and FDI for 111 developing countries.
Nasreen and Anwar (2014)	1981 - 2012	ARDL approach	Political risk deters FDI inflows in Pakistan both in the long and short term.
Osabutey and Okoro (2015)	2002 - 2011	Correlation analysis	For Nigeria, political risk is important for FDI.
Kariuki (2015)	1984 - 2010	Panel data analysis	For 35 African countries, political risk has a negative but insignificant impact.
Erkekoğlu and Kılıçarslan (2016)	2002 - 2012	Panel data analysis	The absence of political risk for 91 countries increases foreign direct investment.

Author(s)	Term(s)	Method(s)	Conclusion
Bal and Akça (2016)	2000 - 2013	Panel regression analysis	For the 11 selected East Asian and Pacific countries, political factors do not have any impact on foreign direct investment.
Nur and Dilber (2017)	1996 - 2014	Panel data analysis	For a 1% increase in political risk in developing countries, FDI increases by 0.81%.
Rafat and Farahani (2019)	1985 - 2016	Two-stage least squares estimator	There is a relationship between foreign direct investments and political risks for Iran.
Belke and Özturgut (2020)	2000 - 2015	Panel regression analysis	Political stability has a positive effect on foreign direct investment in 27 emerging market economies.
Efeoğlu and Pehlivan (2021)	2000-2017	Panel cointegration analysis and causality	For G-20 countries, there is a long-term cointegration relationship between political stability and foreign direct investment.
Topaloğlu and Korkmaz (2021)	2002 - 2017	Panel data analysis	There is a statistically significant and negative relationship between political risk and foreign direct investments for G7 countries.
Kızılkaya and Kızılkaya (2021)	1998Q1-2019Q4	Fourier unit root and Fourier ADL cointegration analysis	In the research conducted for Turkey, there is a positive relationship between political stability and foreign direct investments.

Table 1. Literature Review

3. Dataset and Method

In this study, it is desired to investigate the effect of political risk on foreign direct investments by using the data of net foreign direct investment (FDI) and Turkey's political risk score (POL) for the period 1998 - 2019 as a percentage of annual GDP. Thus, it will be revealed whether political risk deters foreign direct investments in the Turkish economy. The unit root test of the variables and the long-term relationship between the variables were carried out with Fourier-based tests. The values of the descriptive statistics for the series in the study are presented in Table 2:

	FDI	POL
Average	1.058313	56.63214
Median	0.545822	56.41667
Maximum	3.653480	69.33333
Minimum	0.131922	43.50000
Standard deviation	0.905619	6.161924
Skewness	1.181611	0.097048
Kurtosis	3.754623	2.672659
Jarque-Bera	8.974985 (0.011)	0.211203 (0.899)

Note: Parentheses represent probability values.

Table 2. Descriptive Statistics for Series

According to this table, it is seen that the average political risk index for Turkey is 56.63, the maximum observed value is 69.33, the minimum observation value is 43.50, the average net inflow of foreign direct investments as a percentage of GDP is 1.058, the maximum value is 3.65, and the minimum value is 0.13.

3.1. Fourier KPSS Unit Root Test

This test was first introduced to the literature by Becker et al. (2006) with the suggestion that smooth transitions can be captured through Fourier terms. Becker et al. (2006) added trigonometric terms to the test proposed by Kwiatkowski, Phillips, Schmidt, and Shin (1992), known as the KPSS test, and proposed a non-linear test form in order to determine smooth transitions with sine and cosine waves, where the refractive structure is not sharp. In this test, there is no need to know what the break date and structure are. They stated that it is a strong test for serial structures that

show gradual change rather than sudden breakage. In this test, the basic hypothesis tests the unit root against stationarity just like in the KPSS test. Extended to Fourier functions for this test is as follows:

$$y_t = X_t'\beta + Z_t'\gamma + r_t + \varepsilon_t, r_t = r_{t-1} + u_t \quad (1)$$

Here ε_t denotes stationary errors and u_t denotes the error process with independent identical distribution (iid) with σ_u^2 variance. It is defined as $Z_t = [\sin(2\pi kt/T), \cos(2\pi kt/T)]'$ and T sample size k represents the frequency number. The model for the single frequency component $\alpha(t)$ as a function of the number and nature of the unknown breaks is shown as follows:

$$\alpha(t) \cong Z_t'\gamma = \gamma_{1k}\, sin\left(\frac{2\pi kt}{T}\right) + \gamma_{2k}\, cos\left(\frac{2\pi kt}{T}\right) \quad (2)$$

Equations (1) and (2) are rearranged and expressed as follows:

$$y_t = \alpha_0 + \gamma_{1k}\, sin\left(\frac{2\pi kt}{T}\right) + \gamma_{2k}\, cos\left(\frac{2\pi kt}{T}\right) + e_t \quad (3)$$

$$y_t = \alpha_0 + \beta t + \gamma_{1k} \sin\left(\frac{2\pi kt}{T}\right) + \gamma_{2k} \cos\left(\frac{2\pi kt}{T}\right) + e_t \quad (4)$$

You can obtain the test statistic by estimating equations (3) or (4), and the model with constant and constant and trend is symbolized as $\tau_\mu(k)$ and $\tau_\tau(k)$, respectively. The test statistic for both models is calculated in the same way and is displayed as follows:

$$\tau(k) = \frac{1}{T^2}\frac{\sum_{t=1}^{T}\tilde{S}_t(k)^2}{\tilde{\sigma}^2} \quad (5)$$

Here $\tilde{S}_t(k) = \sum_{j=1}^{t}\tilde{e}_j$ and $\tilde{e}_j$ represents the errors obtained from the model with constant or with constant and trend. Before the test, the statistical significance of the trigonometric terms included in the model is investigated and the familiar F test is used for this. Becker et al. (2006) defined the F statistic for the significance test of terms as follows:

$$F_i(k) = \frac{(KKT_0 - KKT_1(k))/2}{KKT_1(k)/(T-q)}, i = \mu, \tau \quad (6)$$

Here, k is the frequency number, q is the number of independent variables, KKT_0 represents the residual square sum of the regression with $KKT_1(k)$ trigonometric terms obtained without trigonometric terms. The null hypothesis of this test is that the coefficients are not significant and are shown as follows:

$$H_0: \gamma_{1k} = \gamma_{2k} = 0$$

As a result of the test, it is important that the coefficients are meaningful for use in the model. The test statistic calculated for this is compared with the critical values obtained by Becker et al. (2006). After being found to be significant, the $\tau(k)$ test

statistic is compared with the critical values reported by Becker et al. (2006), and it is decided whether the analyzed series is stationary or not.

3.2. Fourier Bootstrap ARDL Cointegration Test

The bootstrap autoregressive distributed lag (ARDL) bounds test approach advanced by McNown et al. (2018) is based on the familiar ARDL approach. Pesaran et al. (2001) stated two states of affairs for the cointegration relationship that the error correction term and the coefficients of the lagged explanatory variables in the ARDL model should be statistically significant, respectively. They suggest using the lower and upper critical limits to supply the second condition. On the other hand, there are no upper and lower critical limits that can be used for the first condition. The validity of the first case depends on the degree of integration of the variables.

In order to test whether political risk and foreign direct investments are cointegrated in the long run, the following model can be considered:

$$FDI_t = \beta_0 + \beta_1 POL_t + e_t \tag{7}$$

The traditional ARDL approach is based on F and t statistics. Accordingly, the presence of the cointegration relationship is tested by comparing the test statistics with the lower and upper limits described as I(0) and I(1). If the test statistic is larger than the critical values of the upper bounds, the null hypothesis of no cointegration can be rejected. On the other hand, in cases where the test statistics are between the upper and lower limits, no determination is made as to whether there is cointegration or not. McNown et al. (2018) stated that this problem can be accomplished by using bootstrap critical values (Pata and Aydın, 2020: p. 6). For this purpose, equation (7) is rewritten in error correction structure as follows:

$$\Delta FDI_t = \alpha_0 + \alpha_1 FDI_{t-1} + \alpha_2 POL_{t-1} + \sum_{i=1}^{p-1} \gamma_i' \Delta FDI_{t-i} + \sum_{i=1}^{p-1} \mu_i' \Delta POL_{t-i} + u_t \tag{8}$$

Here p is the lag length, u_t is the error term with zero mean and finite variance. The appropriate lag length is determined by the Akaike Information Criteria (AIC) (Yılancı et al., 2020: p. 3). Pesaran et al. (2001) stated that for the existence of a cointegration relationship, the following basic hypotheses should be rejected using the F-test and t-test:

$$H_{0A}: \alpha_1 = \alpha_2 = 0$$

$$H_{0B}: \alpha_1 = \alpha_2 = 0$$

In addition to these hypotheses, McNown et al. (2018) added a new hypothesis and completed the current test of Pesaran et al. (2001) and suggested testing it with the F test again, and they defined it as follows:

$$H_{0C}: \alpha_2 = 0$$

In line with the studies of Yılancı et al. (2020), Christopoulos and Leon-Ledesma (2011), and Omay (2015), they suggested adding Fourier terms in the range of $k =$

$[0.1,0.2,\dots,5]$ with increments of 0.1 to the equation (8). Thus, they aim to capture smooth transitional changes in the long-term relationship. Using Fourier terms as in equation (3), it can be rewritten as follows:

$$\Delta FDI_t = \alpha_0 + \gamma_{1k}\sin\left(\frac{2\pi kt}{T}\right) + \gamma_{2k}\cos\left(\frac{2\pi kt}{T}\right) + \alpha_1 FDI_{t-1} + \alpha_2 POL_{t-1} + \sum_{i=1}^{p-1}\gamma_i'\,\Delta FDI_{t-i} + \sum_{i=1}^{p-1}\mu_i'\,\Delta POL_{t-i} + u_t \quad (9)$$

Where, k residues choose the procedure in which the sum of squares is minimal. Christopoulos and Leon-Ledesma (2011) stated that while integer frequency values indicate temporary breaks, fractional frequencies indicate permanent breaks. Yılancı et al. (2020) estimated the critical values of F_A, F_B and t statistics with bootstrap simulations. If these calculated statistical values are greater than the calculated critical values, it means that there is a cointegration relationship between FDI and POL variables.

4. Empirical Results

In this study, which was conducted with the aim of examining the effect of political risk on foreign direct investments for Turkey, the results are reported as follows. According to this, firstly, the stationarity test of the variables, the Fourier KPSS test, which was brought to the literature by Becker et al. (2006), was performed and the FDI variable I(1) and the POL variable I(0) were found. Then, the long-term relationship between the variables was tested with the Fourier bootstrap ARDL cointegration relationship, which was brought to the literature by Yılancı et al. (2020). The results are presented in the following tables:

	Frequency	Min. SSR	Fourier KPSS	Critical Values			F test stat.	Critical Values		
				%1	%5	%10		%1	%5	%10
FDI	2	10.191	0.147	0.202	0.132	0.103	5.682**	6.87	4.97	4.16
ΔFDI	5	10.101	0.127**	0.217	0.148	0.120				
POL	1	783.643	0.052	0.047	0.054	0.071	4.760*	6.87	4.97	4.16

Note: * and ** indicate significance at the 10% and 5% level, respectively.

Table 3. Fourier KPSS Unit Root Test Results

According to the findings in Table 3, it is seen that the FDI variable is stable at the 5% level, that is, I(1), while the POL variable is stationary at the 5% level, that is, I(0). In addition, it is seen that the Fourier functions are significant according to the F test statistic, which decides whether to include trigonometric terms in the model. For this reason, the long-term relationship between the variables should be tested with the Fourier bootstrap ARDL approach. The results are presented in Table 4:

	Test stats.	Critical Values		
		%1	%5	%10
F_A	11.290**	17.032	11.139	8.966
F_B	-4.681**	-5.297	-4.300	-3.852
t	2.931*	4.107	3.126	2.491

Note: The appropriate frequency was 2.1 and the Akaike Information Criteria was 1.822. * and ** indicate significance at the 1% and 5% levels, respectively, and the results were obtained with 2000 simulations.

Table 4. Fourier Bootstrap ARDL Test Results

As a result, it is seen that there is a long-term relationship between the variables. Therefore, in order to understand the magnitude of the relationship, the long-term and short-term results are reported as follows:

	Coefficient	Standard Error	Statistical value
POL	0.090	0.033	2.684 (0.014)**

Note: ** Indicates significance at the 5% level and values in parentheses represent probability values.

Table 5. Long-Run Estimate Results Based on the Fourier Bootstrap ARDL Model

According to the long-term coefficient estimation results, the political risk variable affects foreign direct investments positively and significantly. According to the Weak Partisan Model, which was first introduced by Frey and Schneider (1978) and later developed by Alesina et al. (1996), political stability contributes positively to economic growth in governments with high popularity, assuming rational expectations are valid. On the other hand, according to Bayat et al. (2018), political stability is increasing in countries that have transitioned from central planning to a free-market economy, and this situation is positively reflected in macroeconomic indicators. Thus, the macroeconomic stability brought by political stability will contribute to the long-term decision-making of both policymakers and economic actors.

	Coefficient	Standard Error	Statistical value
ΔFDI_{t-1}	0.317	0.161	1.968 (0.063)*
ΔPOL	0.020	0.022	0.881 (0.388)
SIN	18.978	4.521	4.197 (0.000)***
COS	38.815	8.147	4.764 (0.000)***
$CointEq(-1)$	-0.749	0.157	-4.755 (0.000)***

Note**:** ** indicates significance at the 5% level and represents the probability values in parentheses.

Table 6. Short-Term Estimation Results Based on the Fourier Bootstrap ARDL Model

According to the results obtained from Table 6, it is seen that the error correction mechanism works and it is statistically significant. Imbalances that occur in the system in the short term are corrected in a short period of approximately 1.33 years. In addition, it is seen that the difference lag of the FDI variable is significant in the added trigonometric terms. The fact that the political stability variable is statistically insignificant, the Fourier components and foreign direct investment are statistically significant. Therefore, foreign direct investments do not comply with the contraction (political instability) and expansion (political stability) regimes of political stability in the short term. As Abeyasinghe (2004) argues, political instability in developing countries affects economic growth much more than political stability.

5. Conclusion and Discussion

The purpose of this article is to test the effectiveness of political risk in host countries as determinants of foreign direct investment. For this purpose, using the 1984 - 2019 annual data, it was investigated whether political risk affects foreign direct investments for the example of Turkey. By using Fourier-based tests, possible smooth transitional changes were taken into account and a positive and significant relationship between the variables, in the long run, is observed. It is also seen that the error mechanism works in the short run. This study empirically concluded that political risk plays an important role in determining FDI inflows. As a result, it is mentioned that there is a long-term relationship between the two variables. These findings show that political conditions really play an important role in the foreign direct investment decision process. Romer (1993) stated that FDI can facilitate the transfer of technological and commercial know-how to less developed economies, and as a result, the gaps of opinion between rich and poor countries can be reduced. Additionally, new ideas can spread to other sectors and parts of the economy that are

not recipients of FDI, thereby helping more firms increase their productivity in the process. Theoretically, the two most important factors of FDI are the size and growth of the host country and cost competitiveness. It is important that political parties in countries, other stakeholders, and bureaucrats consider the fact that worsening political situations in countries will have a wholly negative impact. Therefore, an efficient financial infrastructure will do little in attracting foreign investment if the country is in political instability. Since political instability plays an important role in determining FDI and thus in a country's long-term economic performance, one of the main objectives of countries should be to reduce political risks and uncertainties. It is clear that inward FDI flows will increase as countries open their economies further to international trade and initiate economic and political reforms.

Foreign direct investment is an important issue for developing countries as it brings economic development, access to management skills, financial resources, marketing expertise, and increases employment. This type of investment occurs when a firm invests in producing a product in a foreign country or when a firm buys an existing business in a foreign country. Foreign direct investment is an engaging form of capital inflows into emerging and developing countries and such investments are less susceptible to crises and volatility. Global economic crises are causing competition between countries to attract much-needed FDI. The importance of foreign direct investment in developing countries has started to spread very rapidly after the transition of their countries to open markets. FDI is broadly regarded as a mix of capital, technology, marketing, and management, as many countries view attracting foreign direct investment as an important element in their economic growth strategy. It is therefore important to understand why in many countries FDI inflows are lower than expected. Therefore, it is commonplace that countries' level of financial development is associated with higher FDI inflows. To put it simply, it will be inevitable to reach higher thresholds and higher levels of financial development as political stability is achieved.

References

Abeyasinghe, R. (2004). Democracy, political stability, and developing country growth: theory and evidence. Illinois Wesleyan University. Honours Projects. Paper 17.

Alesina, A., Özler, S., Roubini, N. and Swagel, P. (1996). Political instability and economic growth. Journal of Economic Growth, 1(2), 189 - 211.

Baek, K. and Qian, X. (2011). An analysis on political risks and the flow of foreign direct investment in developing and industrialized economies. Economics, Management and Financial Markets, 6(4), 60 - 91.

Bal, H. and Akça, E. E. (2016). Doğrudan yabancı sermaye yatırımlarının belirleyicileri: seçilmiş doğu Asya ve pasifik ülkelerinden ampirik bulgular. Sosyoekonomi, 24(30), 91 - 112. doi: 10.17233/se.2016.10.005

Bayat, T., Kişman, Z. A. and Taşar, İ. (2018). The macroeconomic determinants of political stability in transition economies after collapse of Soviet Union. Cumhuriyet Üniversitesi İktisadi ve İdari Bilimler Dergisi, 19(1), 163 - 175.

Becker, R., Enders, W. and Lee, J. (2006). A stationarity test in the presence of an unknown number of smooth breaks. Journal of Time Series Analysis, 27(3), 381 - 409. doi:10.1111/j.1467-9892.2006.00478.x

Belke, M. and Özturgut, R. (2020). Doğrudan yabancı yatırımların ülkeye özgü belirleyicileri: yükselen piyasa ekonomileri için panel veri analizi. Akademik Araştırmalar ve Çalışmalar Dergisi (AKAD), 12(22), 12 - 26.

Bénassy-Quéré, A., Coupet, M. and Mayer, T. (2007). Institutional determinants of foreign direct investment. World Economy, 30(5), 764 - 782. doi: 10.1111/j.1467-9701.2007.01022.x

Busse, M. and Carsten, H. (2007). political risk, institutions and foreign direct investment. European Journal of Political Economy, 23(2), 397 - 415. https://doi.org/10.1016/j.ejpoleco.2006.02.003

Christopoulos, D. K. and Leon-Ledesma, M. A. (2011). International output convergence, breaks, and asymmetric adjustment. Studies in Nonlinear Dynamics & Econometrics, 15(3). https://doi.org/10.2202/1558-3708.1823

Demez, S., Kızılkaya, F. and Turan, İ. (2019). NIC ülkelerinde politik istikrar ve ekonomik büyüme ilişkisi. Siirt Üniversitesi Sosyal Bilimler Enstitüsü Dergisi, 7(14), 485-499.

Dunning, J. H. (1979). Explaining changing patterns of international production: in defence of the eclectic theory. Oxford Bulletin of Economics and Statistics, 41(4), 269 - 295. https://doi.org/10.1111/j.1468-0084.1979.mp41004003.x

Dutta, N. and Roy, S. (2011). Foreign direct investment, financial development and political risks. The Journal of Developing Areas, 303(327).

Efeoğlu, R. and Pehlivan, C. (1998). Doğrudan yabancı sermaye yatırımlarının belirleyicileri: G-20 ülkelerinde bir uygulama. Fırat Üniversitesi Sosyal Bilimler Dergisi, 31(1), 289-300. https://doi.org/10.18069/firatsbed.730420

Emir, M., Uysal, M. and Doğru, B. (2013). Ülkenin risklilik durumu ile ülkeye gelen doğrudan yabancı yatırım arasındaki ilişki: Türkiye örneği. Atatürk Üniversitesi İktisadi ve İdari Bilimler Dergisi, 27(2), 79 - 92.

Erkekoğlu, H. and Kılıçarslan, Z. (2016). Do political risks affect the foreign direct investment inflows to host countries? Journal of Business Economics and Finance, 5(2), 218 - 232. doi: 10.17261/Pressacademia.2016219263

Frey, B. S., Schneider, F. (1978). An empirical study of politico-economic interaction in the United States. The Review of Economics and Statistics, 174 - 183.

Jensen, N. and McGillivray, F. (2005). Federal institutions and multinational investors: federalism, government credibility and foreign direct investment. International Interactions, 31(4), 303 - 325. https://doi.org/10.1080/03050620500303365

Kariuki, C. (2015). The determinants of foreign direct investment in the African union. Journal of Economics, Business and Management, 3(3), 346 - 351. doi: 10.7763/JOEBM.2015.V3.207

Kaufmann, D., Kraay, A. and Zoido, P. (1999). Governance matters. Available at SSRN 188568.

Khan, M. M. and Akbar, M. I. (2013). The impact of political risk on foreign direct investment. International Journal of Economics and Finance, 5(8), 147 - 156.

Kızılkaya, O. and Kızılkaya, O. (2021). Türkiye'de politik istikrarın doğrudan yabancı yatırımlara etkisi: Fourier ADL eşbütünleşme testinden kanıtlar. Erciyes Üniversitesi İktisadi ve İdari Bilimler Fakültesi Dergisi, (60), 571-587. doi: 10.18070/erciyesiibd.951065

Kim, H. (2010). Political stability and foreign direct investment. International Journal of Economics and Finance, 2(3), 59 - 71.

Kobrin, S. J. (1979). Political risk: a review and reconsideration. Journal of International Business Studies, 10(1), 67 - 80.

Kwiatkowski, D., Phillips, P.C. B., Schmidt, P. and Shin, Y. (1992). Testing the null hypothesis of stationarity against the alternative of a unit root: how sure are we that economic time series have a unit root? Journal of Econometrics, 54(1-3), 159 - 178.

Lee, H., Biglaiser, G. and Staats, J. L. (2014). The effects of political risk on different entry modes of foreign direct investment. International Interactions, 40(5), 683 - 710. https://doi.org/10.1080/03050629.2014.899225

Lucas, R. E. (1990). Why doesn't capital flow from rich to poor countries? The American Economic Review, 80(2), 92 - 96.

McNown, R., Chung, Y. S. and Soo, K. G. (2018). Bootstrapping the autoregressive distributed lag test cointegration. Applied Economics, 50(13), 1509 - 1521. https://doi.org/10.1080/00036846.2017.1366643

Meldrum, D. (2000). Country risk and foreign direct investment. Business Economics, 35(1), 33 - 40.

Nasreen, S. and Anwar, M. A. (2014). Political risk and foreign direct investment: evidence from Pakistan economy. International Journal of Social and Economic Research, 4(1), 24 - 36. DOI : 10.5958/j.2249-6270.4.1.005

Nur, H. B. and Dilber, İ. (2017). Gelişmekte olan ülkelerde doğrudan yabancı yatırımları belirleyen temel unsurlar. Dokuz Eylül Üniversitesi İktisadi İdari Bilimler Fakültesi Dergisi, 32(2), 15 - 45.

Omay, T. (2015). Fractional frequency flexible Fourier form to approximate smooth breaks in unit root testing. Economics Letters, 134, 123-126. https://doi.org/10.1016/j.econlet.2015.07.010

Osabutey, E. L. C. and Okoro, C. (2015). Political risk and foreign direct investment in Africa: the case of the Nigerian telecommunications industry. Thunderbird International Business Review, 57(6), 417 - 429.

Özbay, F., Pehlivan, C. and Oğuztürk, B. S. (2020). Otomotiv ihracatının istihdam, doğrudan yabancı yatırımlar ve büyüme üzerindeki etkisi: Türkiye üzerine ekonometrik bir uygulama. Süleyman Demirel Üniversitesi İktisadi ve İdari Bilimler Fakültesi Dergisi, 25(4), 569-585.

Özcan, B. and Arı, A. (2010). Doğrudan yabancı yatırımların belirleyicileri üzerine bir analiz: OECD örneği. Ekonometri ve İstatistik e-Dergisi, 12, 65 - 88.

Pata, U. K. and Aydin, M. (2020). Testing the EKC hypothesis for the top six hydropower energy - consuming countries: evidence from Fourier bootstrap ARDL procedure. Journal of Cleaner Production, 264, 121699. https://doi.org/10.1016/j.jclepro.2020.121699

Pesaran, M. H., Shin, Y. and Smith, R. J. (2001). Bounds testing approaches to the analysis of level relationships. Journal of Applied Econometrics, 16(3), 289 - 326. doi: 10.1002/jae.616

Quer, D., Claver, E. and Rienda, L. (2012). Political risk, cultural distance, and outward foreign direct investment: empirical evidence from large Chinese firms. Asia Pacific Journal of Management, 29(4), 1089 - 1104. doi: 10.1007/s10490-011-9247-7

Rafat, M. and Farahani, M. (2019). The country risks and foreign direct investment (FDI). Iranian Economic Review, 23(1), 235 - 260.

Sekkat, K. and Veganzones - Varoudakıs, M. A. (2004). trade and foreign exchange liberalization, investment climate and FDI in the MENA countries. Middle East and North Africa Working Paper, Working Paper Series, 39, 1- 27.

Sissani, M. and Belkacem, Z. (2014). The effect of political risk on foreign direct investment: the case of Algeria. Hyperion Economic Journal, 2(3), 29 - 35.

Tallman, S. B. (1988). Home country political risk and foreign direct investment in the United States. Journal of International Business Studies, 19(2), 219 - 234.

Tatar, H. E. (2020). Karadeniz ekonomik işbirliği bölgesinde altyapı sistemlerinin doğrudan yabancı yatırım girişlerine etkisi. Sakarya İktisat Dergisi, 9(3), 207-218.

Topaloğlu, E. E. and Korkmaz, T. (2021). Politik riskin doğrudan yabancı yatırımlar ve pay piyasası endeks getirilerine etkisi: G7 ülkeleri üzerine bir uygulama. Verimlilik Dergisi, 1, 97 - 115. doi: 10.51551verimlilik.654014

Yılancı, V., Bozoklu, Ş., Görüş and M. S. (2020). Are BRICS countries pollution havens? Evidence from a bootstrap ARDL bounds testing approach with a Fourier function. Sustainable Cities and Society, 55, 102035. https://doi.org/10.1016/j.scs.2020.102035