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## Analysis of Foreign Direct Investment Policies and of the Performance of FDI Flows into Türkiye

### Doğrudan Yabancı Yatırım Politikalarının ve Türkiye Gelen Doğrudan Yabancı Yatırımların Performansının Analizi

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**Abstract:** The purpose of this paper is to overview Foreign Direct Investment (FDI) policies and legal framework over the years in Türkiye and analyze the performance of FDI inflows to the country by using total and sectoral FDI data over the period 1970-2022. With the recognition of positive spillover effects of FDI in bringing foreign exchanges, as well as new technologies, managerial and marketing skills to domestic industries, Türkiye opened its economic activities to foreign capitals by adopting liberal FDI laws and regulations in 1980, 1989, 2003 and 2012. Our study shows that immediately after these years, both aggregate FDI inflows and their sectoral distributions in Türkiye has changed dramatically. For instance, after the implementation of the FDI law in 2003, the service sector attracted the most of total FDI inflows.

**Keywords:** FDI Inflows, FDI Policies, Türkiye.

**Öz:** Bu çalışmanın amacı, Türkiye yıllar içerisinde uygulanan doğrudan yabancı yatırım politikalarını ve yasal çerçeveyi gözden geçirmek ve ardından ülkeye gelen doğrudan yabancı yatırımların performansını 1970-2022 dönemi toplam ve sektörel verileri kullanılarak incelemektir. Yabancı sermaye yatırımlarının, yabancı döviz girişleri yanı sıra yeni teknolojiler, yönetim ve pazarlama becerilerini yerli sanayiye kazandırma şeklindeki olumlu etkilerinin tanınması ile birlikte Türkiye yabancı sermaye yatırımlarına kapısını açmış ve liberal doğrudan yabancı yatırım yasalarının ve kurallarının ilki 1980 yılında, ardından da 1989, 2003 ve 2012 yıllarında çeşitli yasal düzenlemeleri kabul etmiştir. Bu çalışma yukarıda belirtilen yasaların geçirildiği tarihlerden hemen sonrasında toplam doğrudan yabancı yatırımlarda ve bunun sektörel dağılımında radikal değişiklikler olduğunu göstermektedir. Örneğin, 2003 yılında çıkarılan doğrudan yabancı yatırım yasasının uygulanmasından sonra bu yatırımların çoğunun hizmetler sektörüne kaydığı görülmektedir.

**Anahtar Kelimeler:** Doğrudan Yabancı Yatırım Girişleri, FDI Politikaları, Türkiye.

## INTRODUCTION

Developing countries (DC) opened up their economies to foreign direct investment (FDI) from 1980 onwards, when they anticipated the importance of FDI in their economic developments by bringing foreign capital, new technology, marketing and management skills to the host economies. Three factors affected FDI flows into developing countries mostly; the first was the adoption of various liberal FDI laws and regulations in the 1980s, the second was the financial liberalisation in the early

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1980s, and the third was improved business cycle conditions in many developed countries in the early 1990s (Aykut and Sayek, 2007; UNCTAD, 2006). Even though the world faced a global financial crisis in 2008 and with the Covid-19 pandemic in 2020, the trend has kept rising. Developing countries have not only raised the level of FDI inflows, but they have also increased their shares in the world; they increased from 23,6 billion US\$ (34% of the total) in 1981 to 836,5 billion US\$ (57,7% of the total) in 2021 (UNCTAD, 2023). If Türkiye was able to withdraw at least 4 percent of this, it would be very nice for her economic development.

Since the early 1990s, developing countries have increasingly liberalized and privatized their services sector, with a view to greater participation in the global economy. This resulted, in the second half of the 1990s, a remarkable change in the sectoral distribution of FDI flows in many countries. In particular, FDI in services rose to overtake FDI in manufacturing in many DCs. Most of these FDI inflows have been directed to the finance and infrastructure sectors, due to the countries' efforts on privatization and liberalization in these sectors (Aykut and Sayek, 2007). Services constituted the largest recipient sector of FDI, accounting for about two-thirds of FDI inflows worldwide and about 55 percent of FDI inflows in developing countries (UNCTAD, 2006: 1).

Türkiye was no exception to this and she also implemented more welcoming approaches towards FDI to achieve high rates of growth and economic development. According to the OECD data for the year 2020, a few sectors, namely real estate investment, air, maritime, radio & TV broadcasting, and transport, remain with high regulatory restrictions compared with the other OECD members (OECD, 2023). Consequently, FDI inflows increased markedly from 171 million US\$ in 1987 to 1,1 billion US\$ on average for the period 1989-2004, then to 13,7 billion US\$ on average between 2005 and 2021.

This paper intends to overview the history of FDI policies and examine the performance of FDI inflows in Türkiye with the help of aggregate and disaggregated FDI data. The remainder of this paper is organized as follows. Section 2 reviews historically the legal framework of FDI policies in Türkiye. At the same time, this section analyzes the performance of inward FDI between 1970 and 2021, since its size and pattern have a crucial role in the host economies. Section 3 examines the country and the sectoral distributions of FDI inflows in Türkiye between 2005 and 2022. The last section summarises the main findings.

## **REVIEW OF FDI POLICIES AND THE PERFORMANCE OF FDI INFLOWS IN TÜRKİYE**

This section provides a historical overview of FDI policies, legal frameworks, and the performance of FDI inflows. FDI policies and their performance in Türkiye will be evaluated in three periods, depending on the stages of liberalization: the pre-liberalization period (1970-1979); the gradual liberalization period (1980-2002); and the rapid liberalisation period starting after the implementation of a near-complete liberal FDI law in 2003.

### **Pre-liberalisation Period: 1970-1979**

The Demokrat Party came into power in 1950 with promises of liberal economic policies and passed a new law (No. 5821) in 1951 to regulate and encourage FDI flows to Türkiye. With this law, except for agriculture and commerce, all sectors were opened up to foreign investors. However, since the law contained some restrictions on issues like the transfer of earnings abroad and the form of FDI applications, the amount of actual FDI inflows to the Turkish economy was negligible and was less than the expectation of Turkish officials. The government quickly responded to the disappointing results and took further liberal actions towards FDI. As a result, a new law (No. 6224) was enacted in 1954. Although Law 6224 offered foreign investors much-improved conditions, the amount of actual FDI inflows still remained low until the late 1980s. As can be seen from Table 1, during the 1970s, net FDI inflows to Türkiye were less than \$13 million per annum and also had negative values in 1974 and 1979. In terms of attracting FDI inflows, Türkiye performed badly in the second half of the 1970s; the share of FDI inflows in GDP dropped from around 0,2% to around 0,04% in these years. In a similar vein, the value of FDI stock, in a current US dollar term, increased in the early 1970s, but remained almost unchanged in the second half of the 1970s.

The failure to attract sufficient FDI flows during the entire period can be attributed to several factors, including government attitudes, economic and political uncertainties and bureaucratic obstacles (Cetin, 2005). First, Law 6224 did not introduce clearly specified criteria for the approval of foreign investment applications. Therefore, the investment applications made by foreign companies were rejected depending on the political opinions of different governments. The second factor was continued political uncertainties; military takeovers occurred in 1960, 1970, and 1980 as a result of economic, social, and political problems. The third factor was bureaucratic obstacles. The whole process of investment approvals was overburdened with the bureaucracy created by the government authorities, namely the Ministries of Trade, Industry and Finance and the State Planning Office (SPO).

**Table 1.** FDI inflows, shares in GDP and inward FDI stocks: 1970-1979

Years	Net FDI Million \$	FDI Million \$	Share of GDP	Inward FDI Stock Million \$
1970	9,0	58	0,23	105,7
1971	11,7	45	0,19	117,2
1972	12,8	43	0,14	130,0
1973	67,3	79	0,21	197,3
1974	-7,7	64	0,12	189,6
1975	15,1	114	0,18	204,7
1976	8,9	10	0,01	213,6
1977	9,2	27	0,03	222,8
1978	11,7	34	0,04	234,5
1979	-6,4	75	0,06	228,1
Average	13,1	54,9	0,12	....

Source: SPO, 1983 and UNCTAD, [www.unctadstat.unctad.org](http://www.unctadstat.unctad.org), (14.07.2023).

### Gradual Liberalisation Period: 1980-2002

Although liberal economic policies and liberal FDI policies were adopted in 1980, the government still viewed foreign investments with suspicion and tended to curtail their freedom through the obligation of setting up joint ventures with local firms and the imposition of export requirements. As can be noticed from Table 2, the average annual FDI inflows to Türkiye were only \$83,2 million and the stocks of FDI in Türkiye were only \$9,4 billion during the 1980-1987. The share of FDI inflows in the GDP of Türkiye was less than in the pre-liberalization period, at around 0,08 percent, while the share of FDI stocks was 3 percent less than the share of FDI stocks in developing countries.

The low levels of FDI inflows during this period were attributed to several external and internal factors. One of the main external factors was the political instability in the Middle East, namely the long-lasting Iran-Iraq War. Multinational firms, thus, diverted their investments to more secure locations like the Newly Industrialised Economies of Asia. Another external factor was a slowdown in the global trend of FDI inflows because of the world economic recession in the early 1980s. While global FDI inflows were falling from \$69 billion in 1981 to \$55,8 billion in 1985, the share of developing countries in this FDI dropped from 45,4% in 1982 to 15,9% in 1987 (UNCTAD, 2023). On the other hand, although Türkiye had a large domestic and regional market, skilled and cost-competitive labour force, rich natural resources, strategic location, and high rates of GNP growth in the 1980-1987 period, the level of FDI inflows to the country had not come up to the official expectations because of stronger labour union pressures for real wage increases and persistent macro-economic instabilities, such as high rates of inflation, large public sector, and current account deficits, volatility of the exchange rate (Cetin, 2005; Aydoğan, 2017).

With the realization of the importance of foreign investment to economic growth and development, balance of payments, employment, inflation, and technological capacities, the Turkish government amended the existing Law 6224 in 1986 to treat foreign firms equally with local firms and abolished the discriminatory export performance requirement. Since most developing countries benefitted from capital account liberalization in receiving FDI inflows, Türkiye also started to liberalize

capital accounts in 1980 and continued in mid-1984 and completed its liberalization in August 1989. Because of the financial deregulations in the 1980s in many developing countries, FDI inflows to these countries increased more than fourfold between 1980 and 1990 (UNCTAD, 2023). In addition to these legislative changes, Türkiye also signed several bilateral and multilateral agreements to provide a stable environment for foreign capital. In this context, investment protection and double taxation agreements were signed between Türkiye and twenty countries (Aydoğan, 2017).

As Table 2 shows, after seeing a moderate rise in her FDI inflows in the late-1980s, Türkiye was not able to increase FDI inflows further during the 1990s. FDI inflows to DCs, on the contrary, accelerated in the 1990s and reached a record level of \$231,5 billion in 2000. Similarly, the share of FDI inflows in Turkish GDP had just risen from 0,08 percent in the 1980-87 period to 0,4 percent during the 1990s. Examining the data on FDI stocks yielded that although FDI stocks in Türkiye during the 1990s had doubled the share of FDI stock in GDP remained just around 7%. However, the share of FDI stocks in DCs had risen sharply from 13,3% in 1988 to 23,5% in 2000. The low level of FDI inflows to the country during the 1990s was attributed to high costs of energy and other inputs, relatively high rates of income and corporate taxes, persistent political as well as economic instabilities, like high rates of inflation and large public sector and current account deficits (Loewendahl and Loewendahl, 2001; Aydoğan, 2017). Another report prepared by YASED (2006) added that frequent changes in FDI-related legislations, costs of uncertainties, problems in the financial system, lack of infrastructure, and bribery and corruption are the other causes of the low FDI inflows.

**Table 2.** FDI inflows, stocks and their shares in GDP, 1980-2002

Years	FDI Inflows Million \$	Share of FDI Inflows in GDP	FDI Stocks Billion \$	Share of FDI Stocks in GDP	Share of FDI Stocks in GDP of DCs
1980-87	83,2	0,08	9,4	9,6	12,7
1988	354	0,28	9,8	7,8	13,3
1989	663	0,45	10,4	7,1	13,0
1990	684	0,33	11,1	5,4	12,8
1991	810	0,39	11,9	5,7	13,0
1992	844	0,39	12,8	5,8	13,2
1993	636	0,26	13,4	5,4	13,5
1994	608	0,34	14,0	7,8	14,0
1995	885	0,38	14,9	6,4	13,9
1996	722	0,29	15,6	6,3	14,8
1997	805	0,31	16,4	6,3	15,7
1998	940	0,34	17,4	7,1	18,3
1999	783	0,31	18,2	6,9	23,1
2000	982	0,36	18,8	10,1	23,5
2001	3.352	1,67	20,3	7,9	24,3
2002	1.082	0,45	18,8	10,6	22,9

**Source:** UNCTAD, [www.unctadstat.unctad.org](http://www.unctadstat.unctad.org), (11.06.2023).

### Rapid Liberalization Period: 2003-2021

The need for foreign capital and the financial crisis in 2001 forced the Turkish government to have more liberal FDI laws and regulations. New FDI Law (No. 4875), which was enacted on 17 June 2003, is landmark legislation and has brought extensive reforms in favour of foreign investors. Most of these changes are in line with international standards. Under this new law, the government's screening and approval is lifted and a prior notification-based system was adopted for foreign investments. However, with a small amendment made in this law on 1 June 2018, foreign-invested companies must now register certain information (such as the share structure, transfer, and increase or decrease of the share) every year to be eligible for incentives and this can be made on an online platform, called the Electronic Incentive Application and Foreign Investment Information System.

With this new law, all sectors were opened up to foreign investors, except for real estate and certain strategic sectors, like radio and TV broadcasting, maritime and civil aviation. After a land reform



made in 2012, foreign companies may acquire real estates in any place where Turkish citizens have the right to acquire. Even though the principle of reciprocity continues to apply to foreign real persons, the opening of the real estate sector is regarded by foreign investors as one of the drastic changes that the Turkish government has enacted. The law also introduced some other principles to attract more foreign investments. These include equal treatment with national firms, valuation of non-cash capital, transfers of foreign exchange earnings, and employment of foreign personnel. Under this law, for the settlement of disputes arising from investment disagreements with private and public-owned firms, foreign investors can apply either to local courts or to national or international arbitration, provided that the conditions in the related regulations are fulfilled and the parties agreed thereon.

After we have mentioned the recent changes in the FDI laws and regulations, we should check whether Türkiye's openness to FDI is comparable with other OECD countries. To do this, the FDI Regulatory Restrictiveness Index, which was developed by the OECD, has been used in the literature (see Nicolas et al, 2013). This index provides a visual estimate of the pace of FDI liberalization over time. This can then be correlated both with the response of investors in terms of FDI inflows and with the stages of reform in terms, not only of FDI policies but also of complementary measures in the areas of competition and trade policies. The FDI Regulatory Restrictiveness Index for Türkiye and the OECD average are displayed in Table 3. As can be seen from the table, Türkiye moved up from the bottom of the list to the 22nd place in 2006 when she passed the most liberal FDI law. In the following six years, even though Türkiye continued to lift some restrictions on FDI, moved up to the 23rd place in 2012 as a result of the five new OECD members. In another index, which has been developed by the World Bank since 2004, Türkiye has improved the conditions for starting a business. For instance, in 2004 with a score of 62,9 Türkiye was in 68th place, but in two years moved to 40th place, and then to 33rd place in 2020 among 190 countries (World Bank, [www.doingbusiness.org](http://www.doingbusiness.org), 11.07.2020).

**Table 3.** OECD and Türkiye's FDI regulatory restrictiveness index, 1997-2020

Year	Index Number for Türkiye	Average Index Number for OECD	Türkiye's Rank in OECD
2003	0,283	0,098	30/30
2006	0,105	0,082	22/30
2010	0,082	0,067	24/35
2011	0,080	0,066	24/35
2012	0,059	0,066	23/35
2018	0,059	0,065	25/37
2019	0,059	0,064	25/38
2020	0,059	0,063	25/38

**Source:** OECD, [www.data.oecd.org](http://www.data.oecd.org), (12.06.2023).

Türkiye has attracted around \$237,9 billion worth of FDI inflows during the most liberalized period of 2003-2021. The highest level of FDI inflows came to Türkiye between 2006 and 2008 right after the start of EU accession process on 3 October 2005 (YASED, 2015: 16). These substantial FDI inflows were also attributed to the achievements of political and economic stabilities, fast and massive privatizations, pursuit of investment policy and free trade regimes, rises in the number of cross-border M&As, increases in the value of stock shares and profits in companies (YASED, 2011). As can be seen from Table 4, during these years the average annual FDI inflows shifted tremendously to \$20 billion and accounted for more than 3 percent of GDP, which was all-time record never seen before. Unfortunately, these substantial FDI inflows were interrupted in the following two years and declined by 56% due to the recession experienced in Western Europe in 2008 and 2009. In order to restore and even break the pre-recession record, the government changed the Land Register Law (No. 2644) to allow foreign investors to purchase real properties in 2012. However, FDI flows to Türkiye did not even come close to the pre-recession level and levelled with an average of around \$13 billion between 2012 and 2021.

There are various reasons behind such a comparatively low performance of FDI inflows during this period. Firstly, a judicial plot and military coup were tried by the Fetullah Terrorist Organisation (FETO) on 17-25 December 2013 and on 15 July 2016 respectively to get rid of the democratically elected (AK Party) government. Secondly, America, who orchestrated the military coup in 2016, also started its first financial attack on the Turkish economy between November 2016 and January 2017 and

weakened the Turkish lira by 25 % against the dollar, while its terrorist allies (DEAŞ and YPG) made Türkiye's border with Syria unsafe to Turkish citizens. Finally, the main opposition party leader Kılıçdaroğlu made a trip to England in November 2018 and said that Türkiye is not a safe place for foreign investment at the moment.

**Table 4.** FDI inflows, stocks and their shares in GDP, 2003-2021

Years	FDI Inflows Billion \$	Share of FDI Inflows in GDP	Inward FDI Stock Billion \$	Share of FDI Stocks in GDP	Share of FDI Stocks in GDP of DCs
2003	1.7	0,55	33,2	10,6	25,4
2004	2.8	0,69	38,6	9,5	25,2
2005	10.0	2,00	71,4	14,2	24,9
2006	20.2	3,65	95,5	17,2	26,4
2007	22.0	3,26	155,7	23,0	29,2
2008	19.8	2,60	81,3	10,6	22,9
2009	8.6	1,33	144,8	22,4	27,8
2010	9.1	1,18	188,4	24,4	28,7
2011	16.1	1,94	138,0	16,6	25,9
2012	13.7	1,57	192,2	21,9	27,5
2013	13.5	1,42	152,5	16,0	27,6
2014	13,3	1,39	183,8	19,6	28,5
2015	19,3	2,21	158,9	18,4	30,1
2016	13.8	1,59	149,4	17,2	31,9
2017	11,1	1,35	196,9	22,9	33,3
2018	12,4	1,69	145,3	18,6	32,0
2019	9,5	1,25	160,7	21,1	33,4
2020	7,7	1,06	228,9	31,8	35,9
2021	13,3	1,62	120,7	14,9	32,3

**Note:** Inward FDI stock is the value of foreign investors' equity in and net loans to enterprises resident in the reporting economy.

**Source:** UNCTAD, [www.unctadstat.unctad.org](http://www.unctadstat.unctad.org), (11.06.2023).

### THE MAIN CHARACTERISTICS OF FDI INFLOWS

As was discussed in the previous section, the level of FDI inflows and their contribution to GDP was negligible until 1987, then, it had neared roughly to one billion US dollars and explained 0,4 percent of GDP until 2002. However, the most radical shift in FDI inflows came after the implementation of the most liberal FDI Law (No. 4875) in 2003 and the EU accession process in 2005. Due to the rising importance of FDI in Türkiye some of its main features, like the country of origin and its sectoral distribution during the period of 2005-2022, will be examined in this section. Data on the actual FDI inflows, both in terms of source country and sectoral orientation, are gathered from the TCMB website. A few academicians have also examined the geographical and sectoral orientations of FDI inflows for the earlier period. For instance, Çetinkaya (2004), Yılmaz et al., (2007), and Terin and Yıldırım (2008) carried out the sectoral analysis, while Gül Hayta (2011), Aydemir, et. al. (2012), YASED (2013, 2019, 2022), Aydoğan (2017), and Balkanlı (2019) conducted country sources and sectoral analysis.

#### The Country Sources of FDI Inflows

The breakdown of FDI inflows to Türkiye with respect to source countries and their shares in total FDI inflows is provided over the period between 2005 and 2022 in Table 5. The data on the geographical distribution of FDI are obtained from the website of the Central Bank of Türkiye (TCMB). It can be seen from the table that EU countries were the main sources of FDI inflows and they provided 65% and 57,3% of the total during the 2005-2008 and 2009-2015 periods respectively. Among the 27 EU countries, seven of them, namely Belgium, France, Germany, the Netherlands, the UK, Luxemburg, and Spain have been major investors in most of the chosen period. Greece and Austria, have brought significant investments for a fairly short time. Other important countries that are investing in Türkiye are the USA and Azerbaijan, which contributed more than one-tenth of the total in the entire period. On the other

hand, as can be noticed from the table, the share of FDI inflows explained by the EU countries dropped significantly during the last period for the following reasons. Firstly, the adoption of security measures against FETO members, who tried the military coup in July 2016, was interpreted by the EU as a restriction on human rights. Secondly, Türkiye's military operations against DEASH and YPG to secure the Syrian border were considered by the EU as a threat to their plan in Syria. These developments slowed down both political and economic relations with the EU countries too.

**Table 5.** Breakdown of FDI by country sources, 2005-2022 (Million US\$)

Country/ Region	Average FDI Inflows			Percentage Distribution		
	2005-2008	2009-2015	2016-2022	2005- 2008	2009- 2015	2016- 2022
EU (27)	11.391	7.459	4.498	65,1	57,3	35,6
Netherlands	3.059	1.161	996,7	17,5	8,9	7,9
Austria	518,2	1.046	221,1	2,9	8,0	1,7
Belgium	1.363	784,0	107,8	7,7	6,0	0,8
Greece	1.484	118,8	2,1	8,4	0,9	0,0
France	898,0	427,8	162,4	5,1	3,3	1,3
Luxemburg	1.003	666,4	286,4	5,7	5,1	2,2
Germany	734,5	740,0	433,1	4,2	5,6	3,4
United Kingdom	708,0	783,4	698,3	4,0	6,0	5,5
Spain	385,0	722,0	564,8	2,2	5,5	4,5
USA	1.504	671,8	506,4	8,6	5,1	4,0
United Arab Emirates	876,0	88,8	94,1	5,0	0,7	0,7
Katar	31,5	139,3	279,7	0,2	1,0	2,2
Russia	447,7	527,1	221,4	2,5	4,0	1,7
Azerbaycan	8,0	601,5	440,0	0,0	4,6	3,5
Japan	11,5	484,8	213,0	0,0	5,7	1,7
Total	17.498	13.013	12.624	100	100	100

Source: TCMB, [www.evds2.tcmb.gov.tr](http://www.evds2.tcmb.gov.tr), (15.05.2023).

### The Sectoral Distribution of FDI Inflows

Table 6 shows the breakdown of FDI in Türkiye concerning sectoral orientation and its share in the total FDI over the period between 2005 and 2022. Data on the sectoral distribution of FDI are obtained from the website of TCMB with the classification of NACE Revision 2. It can be seen from the table that FDI in Türkiye has concentrated on services during the 2005-2008 period. The domination of FDI on services from the late 1990s to the pre-financial crisis period is largely explained by the internal factors (liberal FDI policies privatization and the EU membership process) and the external factor (the global trend of FDI inflows to DCs). Türkiye can be categorized overwhelmingly as a “services economy” and the sector is playing an important role in the country's economic output, employment, or even increasingly in its international trade and investment. Therefore, in order to create a more evenly balanced economy with a greater role for domestic consumption, to stay away from the middle-income trap, and to be more competitive and innovative, the country must lift restrictions further on the services sector.

The following comments can also be derived from the data on sectoral FDI inflows. First of all, the annual average of FDI inflows in services has increased rapidly from \$1,2 billion (57 percent of the total) in the 1996-1999 period to \$11,4 billion (65,5 percent of the total) during the 2005-2008 period (Cetin, 2005). Within the services sector, however, the distribution of FDI inflows is skewed. In other words, more than 90% of this increase is explained by two sectors, namely finance and communication. However, after the global financial crises, FDI inflows to the two sectors fell dramatically and their dominant roles were overtaken by the trade sector in the third period. Four sectors, namely finance, trade, transporting, and communication accounted for 94,4% of the FDI inflows in services in the last period.

Secondly, foreign companies and citizens showed a growing interest in real estates in Türkiye during the 2016-2022 period soon after the amendment of real estate law in 2012 and the number of houses sold to them reached 58.576 in 2021 (Turkish Investment Office, 2022). As a result, the amount of FDI in this sector surpassed the amount of FDI in services. This significant rise in real estates was no big surprise since Türkiye is situated in a strategically important location in the world and the prices of real properties were relatively cheap for foreign citizens (Bal and Göz, 2010).

Finally, as for manufacturing, foreign investors recently turned their attention to high-technology intensive sectors like computers and medium high-technology intensive sectors like chemical products and motor vehicles. The shares of these three sectors increased from 4,6% in the 2005-2008 period to 6,2% in the 2009-2016 period. However, this increase was interrupted by political instabilities which happened due to the internationally supported military coup by FETO on 15 July 2016. Other important sectors that received FDI are food, beverages, and tobacco (5,6% in the 2009-2015 period) and electric, gas, and steam production and distribution (14,6% in the 2009-2015 period).

**Table 6.** Sectoral breakdown of FDI in Türkiye, 2005-2022 (Million US\$)

Sectors	Average FDI Inflows			Percentage Distribution		
	2005-2008	2009-2015	2016-2022	2005-2008	2009-2015	2016-2022
Manufacturing	2.667	2.929	1.647	15,2	22,5	13,0
Food, beverages and tobacco	574,7	729,0	344,8	3,3	5,6	2,7
Chemicals and chemical products	585,0	355,1	288,4	3,3	2,7	2,2
Basic metals	498,5	216,1	183,8	2,8	1,6	1,4
Coke and refined petroleum products	126,2	545,7	130,8	0,7	4,2	1,0
Computer, electronic and optical products	150,5	359,7	196,3	0,8	2,7	1,5
Motor vehicles	82,5	114,0	139,0	0,5	0,8	1,1
Elect. gas, steam prod. and dist.	697,0	1.901	309,0	3,9	14,6	2,4
Services	11.469	4.955	4.530	65,5	38,1	35,8
Finance and insurance	7.163	2.699	1.236	40,9	20,7	9,8
Wholesale and retail trade	714,0	553,3	1.368	4,1	4,2	10,8
Transporting and storage	312,2	463,7	534,7	1,7	3,5	6,6
Information and communication	2.546	123,1	533,0	14,5	0,9	6,6
Net real estates	2.656	2.921	5.041	15,2	22,4	39,9
Total	17.498	13.013	12.624	100	100	100

**Note:** Real estate values are obtained from balance of payments tables from TCMB website.

**Source:** TCMB, [www.evds2.tcmb.gov.tr](http://www.evds2.tcmb.gov.tr), (11.06.2023).

## CONCLUSION AND DISCUSSION

This paper evaluated FDI policies and the general performance of FDI inflows to Türkiye over the period 1970-2021 and then examined some of the important characteristics of FDI inflows, such as their geographical and sectoral distributions between 2005 and 2022. Some important conclusions can be



drawn from the discussion made in this paper. First of all, after adopting new FDI laws in 1980 and 2003 and the EU membership negotiation in 2005, Türkiye became an important destination for foreign investments. The level of FDI inflows firstly increased ten times from 83 million US\$ in the 1980-1987 to 800 million US\$ on average in the late 1980s and in the 1990s and then jumped instantly to 20 billion US\$ level between 2005 and 2008, which is the highest value in history. The share of FDI in GDP has also increased from 0,08 percent in the 1980-1987 to 0,4 percent between 1988 and 2000 and then to around two percent in the 2000s. This performance, however, is not comparable with the DCs' performance and Türkiye must do her homework better to reach her potential.

Secondly, the analysis of FDI inflows with respect to country sources showed that EU countries were the main FDI suppliers in the Turkish economy, explaining more than half of the total FDI inflows during the first two periods (2005-2015). During the 2016-2022 period, Spain, the Netherlands, the UK, and Germany still continued to explain the significant part of FDI inflows, while FDI inflows originating from Belgium, Austria, France, and Luxemburg dropped dramatically. Other important source countries in Türkiye were the USA and Azerbaijan, which contributed more than one-tenth of the total FDI in the entire period.

Finally, the analysis of FDI inflows by sectoral orientation indicated that the services sector, on average, attracted the largest part of FDI inflows, while the energy sector attracted the least part of FDI over the period 2005-2008. Within the services sector, finance and communication sectors attracted more than half of the total FDI inflows. On the contrary, during the second period, the manufacturing, energy, and real estate sectors increased their shares in the total FDI inflows, while the services sector decreased its share in the total FDI inflows. The last period presented a completely different picture. The real estate sector became the primary source of FDI and unfortunately, this type of FDI is not beneficial for economic purposes.

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