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Relation Between Foreign Direct Investment, Economic Growth and Foreign Trade: Evidence From Turkey

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A B S T R A C T

This study investigates causal relationship between foreign direct investment (FDI) that developing countries prefer it to other investments, foreign trade and economic growth in Turkey. The empirical study estimates causal link between the variables that mentioned by using Vector Autoregressive Error Correction Model (VAR-ECM) and Co-integration Analysis over the period 1970-2012. As predicted, co-integration test shows that long-run relationship between economic growth, foreign trade and FDI in which there is only one co-integration vector in data. Finally, this paper finds bi-directional causality between economic growth, FDI and foreign trade. Consequently, the direction of causal relationship between them indicates like $EXP \rightarrow IMP \rightarrow GDP \rightarrow FDI \rightarrow IMP$ at the end of the Granger causality test. The results of Econometric analysis are important for political decisions.

KEYWORDS Foreign Direct Investment; Growth; Turkey

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