A Comparison of Foreign Direct Investments in Eurasian Countries to World Trend in the Period of 1995-2011

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Extensive Summary

Introduction

With the help of technological innovation, the decrease in the costs of transportation and transfer of money, and ease of communication helped to collapse foreign trade barriers. The world which rapidly globalizes and where the boundaries diminish day by day, the foreign direct investments affect many diverse macroeconomic variables, specifically economic growth and unemployment. Most current studies support that there exists a strong causality relationship between foreign direct investments and economic growth. On the other hand, there exists a weaker positive causality relationship between economic growth and foreign direct investments. Moreover, it is an undeniable fact that the economic growth leads to a decline in unemployment. By the collapse of Soviet Union in 1991, Eurasian economies gained their independence which let them enter a stage of fast globalization. As a natural consequence of this process, foreign direct investments into these economies have sharply increased year by year. This study aims to compare the foreign direct investment trends of six transition Eurasian countries (Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan) and Turkey in the period of 1995 and 2011. The results are compared to both the world foreign direct investment trend and the other Central Asian countries.

Literature Summary

Briefly, the most current studies support that there exists a strong causality relationship between foreign direct investments and economic growth. On the other hand, there exists a weaker positive causality relationship between economic growth and foreign direct investments. Moreover, it is an undeniable fact that the economic growth leads to a decline in unemployment. Of course not everyone is in a consensus regarding to the positive effects of foreign direct investments to the host countries. A criticized aspect of foreign direct investments is its probable negative effects on local initiatives. In such cases, foreign direct investments increase competition in product and
input markets, and as a result local businesses may be adversely affected. In another point of view, by causing an increase in the demand for intermediate goods, foreign direct investments may decrease the cost of production in all sectors, and consequently increase the profitability.

**Data Analysis**

This study examines the foreign direct investments to six transition Eurasian economies; namely, Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan and Turkmenistan, and Turkey between the years 1995 and 2011. Furthermore, the study compares the aforesaid economies to each other and presents the empirical results. Within the scope of the study these countries are classified according to their level of development. By the rankings reported by United Nations, 20 countries in the world are defined as transition economies. These 20 economies include 6 Eurasian economies all of which are subject to this study. Turkey, however, is stated among the developing countries in this ranking. The reason for including Turkey in this study is its cultural and economic proximity to aforesaid Eurasian economies. This economic and cultural proximity encouraged many Turkish entrepreneurs to invest in Eurasian economies. By this point of view, analyzing the interaction between these economies and Turkey is thought to be meaningful. For all of the economies subject to this study, FDI flows and stocks, FDI flows and stocks per capita, the ratio between FDI flows and stocks and GDPs, and GDP data for the period of 1995-2011 are collected from UNCTAD (United Nations Conference on Trade and Development) database. Further, the data are analyzed using the IBM-SPSS software package.

**Conclusion**

The greatest advantage of transition economies for foreign direct investments is the cheap labor force. Simply, the labor cost in both developed and developed countries are higher, hence this causes a higher cost of production and expected to affect foreign direct investments negatively. In addition, the labor rights are strictly applied in the developed and most developing countries. This is another drawback for foreign direct investments. Therefore, transition economies have looked very attractive for foreign investors in recent years. This may explained the fast accumulation of foreign capital in these transition economies. The results of the study support previous studies in the literature. Foreign direct investments are crucial for all economies but foreign direct investments are critical in the developments of transition economies.