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THE ROLE OF COMPETITIVENESS IN THE EFFECT OF OUTWARD FOREIGN DIRECT INVESTMENTS ON GDP PER CAPITA: A CONCEPTUAL MODEL PROPOSAL

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Abstract:
The world has been rapidly globalizing, starting with communication protocols in 1970 and continuing today with internet technologies, and in the future, tools known as artificial intelligence and the metaverse. It is observed that technological change, especially in a high-uncertainty and hyper-competitive environment, has transformed more rapidly compared to past decades, directly affecting daily lives. This environment is described as economic, financial, and commercial globalization for companies and governments. Governments' development policies are encouraging companies that are Glocalization (think globally, act locally), transitioning from local to global, and benefiting the local areas, aligned with the investment strategies of companies in the home country. Our study examines concepts and relationships through a literature review within the theoretical framework of Dunning's eclectic paradigm, Porter's diamond model, Williamson's transaction cost theory, and strategic behavior theories. In the mentioned competitive environment, companies make their investment decisions outside their home countries considering four motives (resource seeking, efficiency seeking, market seeking, and strategic asset seeking). The aim of this study is to explain, from a competition perspective, why companies that want to gain competitive advantage in a globalizing world or avoid competition in the domestic market are investing out of their home countries. Planned to be conducted in 61 countries across 6 continents, according to the OECD classification, this study aims to contribute both to the companies' outward foreign direct investment decisions and to policymakers' process of creating sustainable development policies.

Keywords:
Outward Foreign Direct Investment, GDP per capita, Competitiveness

1. Introduction
Policymakers in advanced and emerging economies, alongside national and regional investment agencies, are planning to create investment attractiveness with the anticipation that inward foreign direct investment (FDI) stocks will occur and directly contribute to the national economy. Studies conducted on countries at various levels of development have identified that while inward FDIs have a partial effect in the short term, they become insignificant in the long run (Al-Shawaf & Almsafir, 2016). FDIs provide countries with various development opportunities (Çemberci et al., 2022). This development is exemplified in the host country's competitive and sustainable economic environment, where domestic firms are described by Schumpeter's innovation theory as having the absorptive capacity for technological diffusion (Gilbert, 2006). The integration of inward FDIs into the ecosystem begins with creating awareness necessary for updating old technology machinery and techniques, and subsequently offers benefits for domestic companies through the diffusion of know-how and technology (Lipsey & Sjöholm, 2005). However, if domestic average production costs increase due to a decrease in production resulting from heightened competition, these positive externalities can be overshadowed by the negative effects of competition (Konings, 2000). Therefore, regulations are significant (Grady, 2011). As expressed in Powell's contribution to institutional

theory, in both outward and inward FDIs, if there is a compatibility problem between the host and home countries, one of the parties will be adversely affected (Powell & DiMaggio, 2012).

Expected positive developments can harm the national ecosystem with unplanned regulations. The primary issue of the research stems from the inability of companies and governments to adapt their strategic approaches to the rapidly globalizing competitive environment (KOF Swiss Economic Institute, 2021). This observation is more clearly validated in terms of pre-pandemic approaches and post-pandemic approaches as a current information bias (Tan et al., 2024). To avoid causing macro problems worldwide, it is inevitable that policymakers in developed countries contribute to the welfare levels of developing countries. For this purpose, the effects of two types of direct investments, inward and outward FDIs, on home and host countries have been discussed (World Economic Forum, 2022).

The research problem, supported by the theoretical framework outlined below, is expressed as follows. As Darwin mentioned in his theory of the evolutionary change of biological species, "the one that survives is the one that adapts the quickest," this highlights the strategic importance of companies' or organizations' ability to adapt during passive change (McKelvey & Aldrich, 1983). As D'Aveni notes in his model of strategic maneuvers in situations of high uncertainty and intense competition, profit-oriented companies adapt more quickly to sustain their existence and maintain a competitive advantage (D'Aveni, 1994).

For policymakers, adaptation to the dynamics of a globalizing world is observed as both active and passive change. While advanced countries guide companies through policy regulations, developing countries are expected to align with these regulated global policies. This situation necessitates a strategic perspective for policymakers in developing countries, which, unfortunately, is often not observed (World Bank, 2021). This process of globalization does not hinder policymakers from creating domestic policies to improve the investment environment; rather, it involves creating policies to attract inward foreign investments and encourage outward foreign investments, paying attention to the bargaining power factors in Porter's Five Forces analysis (Grundy, 2006). As our study aims to contribute to companies and policymakers, the problem will be examined from a secondary perspective in terms of competition. Consequently, the purpose of my research is to conceptualize the impact of risk factors in the investment decision phase for the sustainability of companies' international investments, and to enable policymakers to prioritize the competitiveness factor in the policy-making process to achieve efficient outcomes.

In the literature, there are studies indicating that GDP per capita in developed countries has an impact on outward foreign direct investments (OFDIs) (Herzer, 2010; Ameer & Xu, 2017; Lee, 2010). Other studies note a positive effect of OFDIs in developing countries, while highlighting a negative impact of OFDI motivation on GDP per capita in less developed African countries and small island nations (Osarumwense & Igor, 2023; Williams, 2009; Fasanya, 2018). However, there is no study in the literature that explains the role of competition in the impact of OFDIs on GDP per capita from both developed and developing home countries. The purpose of this study is to examine the role of competition, which is the foundation of the motivation sources in OFDI. In other words, it aims to argue that the differing impacts of GDP per capita on OFDI in countries across various income groups alone are insufficient for explanation, and for OFDI to achieve satisfactory results in increasing countries' GDP per capita, the competitive characteristics in the home countries must also be highlighted (Wang et al., 2024). This study consists of six sections. In the second section, definitions related to direct foreign investments, outward foreign direct investments, GDP per capita, and competitiveness are clarified within the framework of the relevant literature. The third section examines the relationships between the concepts mentioned in the second section within the literature, focuses on factors affecting GDP per capita, and explores factors influencing the sustainable growth of the national economy. The fourth section discusses the sources of materials and the methods used, while the fifth section presents the results of the study. The sixth and final section, the discussion, outlines the significant findings of the study.

2. Conceptual Foundations

2.1. Foreign Direct Investments

With the globalization of the world, the free flow of capital has become an economic indicator. In terms of investment assets, this type of capital flow is divided into foreign portfolio investment and foreign direct investments (FDIs) (Razin and Sadka, 2007). With the increase in globalization, Foreign Direct Investment (FDI) has also

increased. Foreign direct investment generally refers to a cross-border investment type where a company or an individual in one country establishes a wholly-owned subsidiary, acquires a local organization, or sets up a joint venture, thus having control or significant authority over a company in another country (Civelek et al., 2016). In FDIs, there are two main types: greenfield investments, which involve starting from scratch, and mergers and acquisitions. Countries prioritize FDIs to encourage their sustainable development (Durham, 2003). In this regard, there are two parties involved in the investment: one is the investing companies, and the other is the governments developing policies. The tendency of governments to follow conventional weak policies while developing more complex FDI strategies with a globalizing world has decreased globally, which is associated with the mobility of capital (Feldstein, 2000; Thurbon and Weiss). Examples can be seen in Ireland, Japan, Malaysia, and South Korea (Barry, 2019; Pak and Park, 2005; Chen et al., 2016; Kim and Rhee, 2009).

According to Dunning's eclectic paradigm, the nature of foreign direct investments (FDIs) can only be explained by combining three elements. The cross-border characteristic of international production is explained by the ownership advantages (O) of a country's firms and the spatial distribution of resources (L) in the home/host countries. Additionally, when the internalization advantage (I) is introduced, it is stated that firms have advantages over market forces in managing the combination of O and L assets. For policymakers, the enabling factor for internalization in the home/host country is human capital (Dunning and Lundan, 2008). FDIs are categorized into four motive-based categories for investment. These are: strategic asset seeking, resource seeking, market seeking, and efficiency seeking (Dunning, 1980). To illustrate these motives: Chinese companies' mining investments in countries with low income levels and high political risks are an example of resource seeking. Taiwanese technology companies' investments in the United States exemplify market seeking. Famous textile firms' investments in Vietnam and Cambodia due to cheap and abundant labor exemplify efficiency seeking. Chinese companies acquiring a North European or United States-based automotive company represent an OFDI motivated by strategic asset seeking. The company's perception of global competition and its mission for sustainable growth guide this investment (Dunning and Dunning, 2006). In this study, Outward Foreign Direct Investments (OFDIs) will be examined as the sub-variable of direct foreign investments, which serves as the independent variable.

2.1.1. Outward Foreign Direct Investments

Outward Foreign Direct Investments (OFDIs) are investments made by domestic firms in a host country abroad as part of their business strategy due to various motives (OECD, 2008). In the globalizing world, OFDIs are seen as a valuable instrument for developing countries to catch up with developed countries, and for developed countries to maintain and increase their level of development. OFDI, as an instrument of internationalization based on equality, has long been a central topic in international business literature (Clougherty et al., 2017; Dunning, 1980; Johanson and Vahlne, 1977). From the perspective of competition, which is a fundamental rule of the private sector, the presence of foreign multinational companies in the domestic market forces local companies to develop. Consistent with this view, it has been found that highly efficient French firms are more likely to invest in foreign markets compared to their less efficient counterparts in other countries (Chen and Moore, 2010). Domestic firms making OFDIs to increase their productivity globally and to escape the effects of increasing competition in the domestic market can make the high costs associated with OFDIs profitable when considering their revenue (Helpman et al., 2004). Italian domestic firms may see a decline in their competitive performance and consequently a decrease in their likelihood of making OFDIs if they cannot secure superior technology inputs from or supply them to foreign-capital firms (Imbruno et al., 2015). Foreign direct investments are not a short-term decision considering immobile assets, but rather a long-term investment choice. Therefore, it is important to analyze investment stocks instead of annual investment flows. Decisions about relocating, closing, or selling investments are not to be made based on short-term projections or annual data (Herzer and Nunnenkamp, 2013). Just as in the Solow-Swan economic growth model, the long-term outputs need to be examined (Huang, 2009).

The positive environmental factors vary among companies at different stages, as observed in China, where the strength of financial markets and the government's planned implementation of OFDI-focused development policies have long-term effects. In some developing countries, it has been observed that the ease of access to local financing causes inertia in OFDI (Han, 2018; Buitrago and Barbosa, 2020).

Studies indicate that the positive effects of OFDI on economic growth rates stem from the competitive environment (Das, 2013). OFDI acts as a complement to exports, providing access to new markets and, in line with the theory of

dynamic capabilities, leading to an increase in employment at the company in the home country. According to Schumpeter's theory of innovation, it serves as a tool for domestic companies to imitate and innovate through the diffusion of knowledge (Lipsey et al., 2000; Chandrawanshi and Banerji, 2014). Therefore, in the context of the theory of dynamic capabilities, the training required to prepare the workforce for new technologies suggests that OFDI may also impact human capital accumulation (Yamada, 2013).

2.2. GDP per capita

GDP per capita is defined as the total monetary value of all final goods and services produced within a country over a specified period, divided by the total population. Unlike Gross National Product (GNP), Gross Domestic Product (GDP) represents the monetary value of all final products and services produced within a country's national borders by local institutions, foreign legal entities, and individuals, adding value to the local economy within a specific timeframe (Çemberci et al., 2022). GDP is expressed as the total added value created within a country. In this study, the economic sizes of countries have been measured by the annual GDP per capita figures for those years, taking into account the population of the countries. The impact of GDP per capita and OFDI on each other is planned to be examined from a competitive perspective. In the study, the World Bank's scale has been used to measure the GDP per capita variable.

2.3. Competitiveness

Competition is the race to achieve better results by individuals and institutions operating in the same field. In today's highly competitive investment ecosystem, the ability for competition-based innovation within organizational capabilities is essential for maintaining a sustainable competitive advantage (Zehir et al., 2012). Competitiveness, also referred to as the competitive drive, is not only applicable to legal entities and individuals but also within nations. This is examined in Michael Porter's work on 1990, The Competitive Advantage of Nations, under the topics of factor conditions, demand conditions, related and supporting industries, and firm strategy, structure, and rivalry (Michael, 1990 and Delgado et al., 2012). Competitiveness will be analyzed through the global competitiveness index, which has been evaluated by the Switzerland-based International Institute for Management Development since 1989. This index examines how countries manage and utilize their resources and potential to achieve long-term value creation. The competitiveness of an economy and its dynamics is a complex structure that cannot be superficially reduced to GDP and productivity alone because businesses must also deal with political, social, and cultural dimensions, as expressed in theories of corporate and strategic behavior (Cyert and March, 2015). Therefore, governments and public interest legal entities must provide an environment characterized by effective infrastructures, institutions, and policies that encourage businesses to create sustainable value. For this reason, the relevant index comprises 336 competitiveness criteria to holistically examine competitiveness.

3. Hypothesis Development

This section includes studies demonstrating the relationships between outward foreign direct investments, competition, and GDP per capita variables.

3.1. The Relationship Between Fdi And Gdp Per Capita

FDI is not only an economic but also a strategic tool. Tolentino's (1993) Investment Development Path hypothesis, which examines the causality between GDP per capita and FDI, has been tested in thirty countries, and similar results have been observed in subsequent empirical studies. Pradhan and Singh (2009) support a significant and positive relationship between India's GDP per capita and the position of FDI. Kyrkilis and Pantelidis (2003) found similar results in their study of 9 countries. This situation has been expressed in various studies as FDI reducing GDP per capita, but GDP per capita increasing FDI (Zang, 2013). Various studies have been conducted taking into account the changing time factor in the strategy axis, with the positions of dependent and independent variables changing (Hattari and Rajan, 2010; Kalotay and Sulstarova, 2010; Liu, 2005).

In the studies conducted, it has been supported that the effect of FDI on GDP per capita may differ depending on the income status of the home country, with the FDI in low-income and middle-high-income countries having different effects on GDP per capita. While FDI in low-income countries is referred to as escape investment cost, FDI in middle and high-income countries is examined as a strategic growth tool (Osarumwense and Igor, 2023;

Song, 2014; Gu, and Lu, 2011; Williams, 2009). In studies on FDI, many factors such as investments from developed countries to developing or least developed countries, investments from developing countries to developed or developing countries, horizontal or vertical investments, different search sources, and home country policies play an active role in affecting GDP per capita in the home country (Gaur and Ding, 2018).

Since FDI appears to be associated with economic development, it may be puzzling for policymakers not to aim to increase OFDI levels in domestic companies. However, given that OFDI, specifically, is associated with higher GDP per capita, policymakers bear significant responsibility for promoting economic growth for sustainable development policies. This strategy can be exemplified particularly with OFDIs originating from China (Cai, 2018; Metallinou, 2022).

The GDP per capita of the home country is positively correlated with the amount of OFDI it attracts. Developing and emerging countries having a larger number of large firms that can expand internationally is expected to increase OFDI effects, thereby boosting the home country's GDP. It is planned that the explanatory power between the relevant variables will increase with our intermediary variable.

H1: There is a positive relationship between FDI and GDP per capita.

3.2. The Relationship Between Ofdi And Competitiveness

In the conducted studies, the effects of OFDI on competitiveness in the home country have been observed to enhance the country's international competitiveness due to access to new markets resulting from international competition, and to encourage local firms towards innovation due to access to global technology and business practices. These processes, in accordance with Powell's institutional theory, are adaptation processes to global dynamics (Powell and DiMaggio, 2012). While the impact of OFDI on competitiveness in domestic firms may be limited in the short term, it will spread with the increase in the number of OFDIs in the long term (Sutherland, 2010; Lee et al., 2023; UNCTAD, 2007; Wong et al., 2023; Cieślik and Tran, 2019).

This is supported by Dunning's investment development path theory. In countries with competition, firms feel the need to make more strategic investments, and companies in value-added sectors transition from the Uppsala internationalization model to strategic asset, productivity, and market search due to the impact of global competition after gaining experience in their domestic markets (Lyles and Yan, 2014). OFDI is recommended for companies with a mission of globalization and those wishing to utilize competition both domestically and globally as a driving force. This can be used to avoid competition pressure in the home country or to gain a competitive advantage internationally. OFDIs, as a strategic tool, enhance the export capacity of stakeholder local firms through access to international markets (Kim, 2000; Lipsey et al., 2000; Chen et al., 2012).

Access to new technologies through investments in host countries, the development of vertical stakeholders in the home country due to the development of production capacities, and the increase in innovative competition with horizontal firms are facilitated. Thus, in accordance with Oliver Williamson's transaction cost theory, more efficient and innovative value-added products contribute to the domestic economy (Williamson, 1981; Li et al., 2016; Tyson et al., 2012). Depending on the focus of the relationship in the literature, either flow or stock is preferred. Since our study observes long-term effects, investment stocks are preferred.

H2: There is a positive relationship between OFDI and competitiveness.

3.3. The Relationship Between Competitiveness And Gdp Per Capita

Competition and GDP per capita, a measure of prosperity, entail a long-term causal relationship. In neoclassical growth models where competition becomes ingrained in a culture, it has been expressed that technological leaps and value-added investments stimulate economic growth, and competition accelerates this process (Kordalska and Olczyk, 2015; Aiginger & Vogel, 2015; Gardiner et al., 2012; Korez-Vide and Tominc, 2016).

Competition within the home country compels stakeholders both vertically and horizontally to adopt or develop more efficient methods within an innovative approach. As expressed in Schumpeter's innovation theory and Freeman's national innovation systems theory, firms in countries with competition will be directed towards innovative activities and new technologies

because, according to strategic behavior theory, firms need to strategically act to enhance their competitiveness both locally and globally (Sweezy, 1943; Freeman, 1995; Cyert and March, 2015). Studies support the impact of competitiveness on GDP per capita.

H3: There is a positive relationship between competitiveness and GDP per capita.

4. Material And Method

In this study, the outward foreign direct investment variable prepared by the Organization for Economic Co-operation and Development (OECD) is used to measure outward foreign direct investment stock, the scale prepared by the World Bank is used to measure gross domestic product per capita variable, and the data of the Global Competitiveness Index prepared by the International Institute for Management Development is used to measure the competitiveness variable. Structural Equation Modeling will be used to test the hypotheses that will explain the relationships between the variables in this study.

5. Conclusion

Based on the literature review conducted, a new model has been developed by examining the relationships between OFDI (outward foreign direct investment), GDP per capita, and competitiveness. It is expected to obtain statistically significant relationships between OFDI-GDP per capita and OFDI-competitiveness, as well as competitiveness-GDP per capita, thus contributing to the understanding of these interrelations.

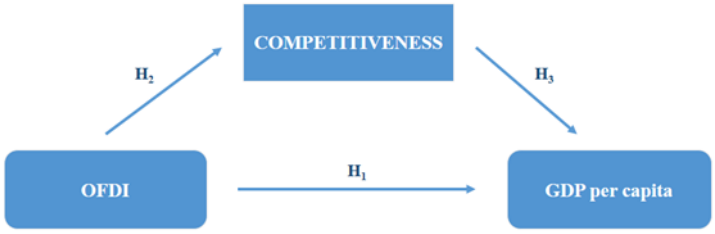

Figure 1. Conceptual Model

According to literature review, which has determined that the direct explanation of outward foreign investments (OFDI) from home countries for increasing the GDP per capita of those countries is limited.
In order for OFDI to achieve explanatory and sustainable outcomes in increasing the GDP of home countries, it is argued that the competitiveness characteristics of countries should also be emphasized, leading to the proposal of a conceptual model. Due to the mediating role of competition, the importance and role of competition are emphasized for both companies and policymakers to better analyze the effects of OFDI on the socio-economic indicator of GDP per capita and to contribute to the strategic decision-making process in accordance with strategic behavior theories.

6. Discussion

There are studies in the literature that examine how OFDI affects GDP per capita, but there is no study that can be generalized to 61 countries and explains the role of competitiveness in the impact of OFDI on GDP per capita.
The purpose of this study is to elucidate the aforementioned role. If such a role is found to be statistically significant, the following assessment would be relevant for domestic economies: Particularly in developing and developed countries, the existence of competition in the domestic market leads to improvements in the ecosystem processes, while entering the global competition arena through OFDI makes the local market susceptible to global influences, contributing to the transformation of local companies and indicating its potential use as a long-term development policy.
Therefore, it is expected that the strategic planning and policies, which are indicators of institutional quality of governments embarking on sustainable development goals, should interact with companies planning in a OFDI manner, leading to achieving expected outcomes in a shorter timeframe, as well as fostering development by bringing global competition and innovation to local market players.

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