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THE EFFECTS OF INWARD FOREIGN DIRECT INVESTMENT ON GROSS DOMESTIC PRODUCT AND INNOVATION-DRIVEN ENTREPRENEURSHIP: A CONCEPTUAL AND EMPIRICAL APPROACH

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Abstract:
One of the most significant economic developments of the 20th century is the acceleration of free capital flows due to market globalization. International capital flows can be broken down into three distinct segments: foreign direct investments, cross-border portfolio investments, and loans. Foreign direct investment refers to investments made by real or legal persons from one country into another. Inward FDI provides benefits such as increasing production capacity, creating jobs, transferring intellectual capital, and spreading global business knowledge by facilitating capital inflows to the host country. Inward FDI flows indicate how much investment an economy attracts over a specific period. In the literature, while the periodic positive effect of the flow on gross domestic product is determined, its relationship with entrepreneurship and innovation varies. The fact that inward FDI flows are statistically significant with GDP is beneficial in the short run, but in the long run, the endogenous resources in sustainable development show their meaning with their impact on entrepreneurship and innovation; the contribution of foreign investors to innovation by transferring their intellectual capital to the locality as planned by the investor is discussed. To conceptualize this network of relationships, our study examines the connections among inward FDI flows, GDP, entrepreneurship, and innovation using structural equation modeling based on five years of data from 43 countries. Inward FDI flow data is obtained from the Organisation for Economic Co-operation and Development, GDP data is sourced from the World Bank, entrepreneurship data comes from the Global Entrepreneurship and Development Institute, and innovation data is acquired from the World Intellectual Property Organization.

Keywords:
Inward Foreign Direct Investment Flow, Gross Domestic Product, Short-term Development, Innovation, Sustainable Development

1. Introduction
Policy makers and regulatory agencies, especially in developing economies, believe that inward FDI flows will occur by creating an investment attraction and attach importance to its periodic effect on gross domestic product as an indicator of political success. In our study, firstly, the relationship between inward FDI flows and GDP, which can have short-term effects, is examined; long-term effects are analysed with structural equation modelling by including entrepreneurship and innovation variables.

2. Theoretical Framework
2.1. Inward FDI Flow
Since the 1980s, there has been a dramatic shift in the scale and impact of international transactions on national economies. According to Feldstein, international capital flows have three important advantages. These are:
1. Risk can be optimised by diversifying the lending and investment activities of capital owners
2. 'International Financial Valuation Standards' can become widespread

3. The policies of capital owners can replace the weak policies of governments (Feldstein, 2000).
The determinants of the above-mentioned capital owners' policies are investment motivations. They include the quest for natural resources, the exploration of market prospects, the drive for efficiency, and the pursuit of strategic assets. This in turn determines the relations with the local.
As an example, those in search of natural resources need physical motivation. Foreign mining companies operating coal mines in Zonguldak can be given as an example. Market seekers are those in search of regional and local target markets. An example is an international beverage company coming to Türkiye. Efficiency seekers aim to increase regional efficiency through systems engineering and process management. An example is a German machinery manufacturing company establishing a factory in Türkiye with the aim of achieving high profits with productivity as a result of cheap quality labour in Türkiye. Strategic asset seekers may acquire global companies and intellectual capital to increase their competitiveness. For example, a global company that is a giant in its sector may acquire the largest national company in the same sector in the same turnover threshold or a company that has developed more advanced technology may acquire patents (Dunning, 2002).
The difference between FDI flows and stocks is that flows refer to new investment inflows on an annual basis, while stocks refer to the total amount of foreign investment accumulated over time.

2.2. Gross Domestic Market

Gross domestic product represents the monetary worth of all final goods and services generated within a country's borders during a designated time period. Unlike gross national product, GDP measures only the domestic production, regardless of whether it is created by local institutions contributing to the economy or by foreign companies or individuals operating within the nation. (Uca et al., 2019). Foreign contributions are also included.

2.3. Entrepreneurship

In the processes from the early ages until the discovery of iron, renewal in the process of human existence and entrepreneurial activities that carry out this renewal. The first people engaged in entrepreneurial endeavours for trade as well as sustaining their lives, and in the Middle Ages to implement and control high-volume manufacturing processes without the possibility of losing (Wingham, 2004). Starting with mercantilism, the movement of selling products and acquiring securities in the 1500s, risk perceptive entrepreneurship that reached the open seas started in France. Like risk perception entrepreneurship that initiated the enrichment of countries, Say considers the progress in social development as the output of entrepreneurial activities. He sees the entrepreneur as the main actor of the development process (Fillion, 1998). Cantillon, on the other hand, portrays the entrepreneur as a risk taker who assumes the possibility of loss because he/she invests his/her own assets in his/her business.

2.4. Innovation

Innovation is defined as 'bringing new perspectives, introducing new phenomena, and developing new perspectives in the design, manufacturing or marketing of the final output in order to be innovative'. There are various examples where the differences of the concept of innovation from various concepts are confused; such as transformation, creativity, invention and copying. In essence, each of them has strong sides that feed each other, but their cores are also different from each other. Although the phenomenon of change, which is the only thing that does not change for innovation, is based on change, not every differentiation expresses innovation. The most important output of innovation-based change and differentiation is the labour-benefit logical economic contribution. In short, although not every change is innovative; change is a more inclusive concept than innovation (McDaniel, 2002). Innovation is the economic efficiency and performance of the output results related to the change in question.

3. Hypothesis Development

This section analyses the relationship between inward FDI flow and gross domestic product and then the relationship between entrepreneurship and innovation.

3.1. The Relationship Between Inward Foreign Direct Investment Flow and Gross Domestic Product

The relationship between foreign investment flows and gross domestic product factors is analysed from two perspectives. Firstly, according to the 'growth due to FDI' hypothesis, the inflow of FDI into the host country promotes economic development by raising the country's wealth, increasing employment opportunities and facilitating the diffusion of know-how.

Another idea advocates the 'growth-led direct capital flows' hypothesis. The argument of this hypothesis is that the increase in the growth of countries creates investment attraction in the country and increases welfare by attracting new investments (Abbes et al., 2015).

Research into foreign direct investment and growth is anchored in the theoretical frameworks of both endogenous and neoclassical growth models. In the neoclassical model, investment flows increase the amount of incoming capital and the efficiency of investment. In this way, it is claimed that investments provide a temporary boost to the gross domestic product of the investing country in the medium term and have an impact on its sustainable development in the long term. Renewed endogenous growth theories also take into account long-term sustainable growth by utilising technological developments. They aim for an ecosystem in which foreign investments make the growth rate sustainable through knowledge spillover and diffusion functions (Nair-Reichert and Weinhold, 2001).

Table 1. Relational study between Inward FDI and GDP

Author and Year	Finding(s)	Summary Finding for FDI/GDP
Balasubramanyam et al., 1996	In studies on 18 developing countries with export-led growth policies, it is determined that foreign investment flows increase growth through freedom of foreign trade.	Positive
Borensztein et al., 1998	Research conducted in 69 developing countries from 1970 to 1989 demonstrates that foreign investment flows significantly impact gross domestic product, and this effect is closely tied to the level of human capital in the investment host country.	It is positive where human capital is high and negative where it is low.
De Mello, 1999	Between 1970 and 1999, studies conducted in OECD and non-OECD countries have shown that increases in capital availability, manufacturing and total factor productivity change the FDI-GDP relationship in relation to technological backwardness and the effect of FDI on GDP decreases as the development gap decreases.	It is stated that the effect of FDI flow on level differences varies due to the curve of consuming resources rather than creating value.
Balasubramanyam et al., 1999	It has been identified that the domestic market size, market competition, and the availability of human capital are key factors influencing the impact of FDI on GDP.	It is stated that investment seeking is positively compatible.
Berthélemy and Demurger, 2000	Studies conducted between 1985 and 1996 in 24 provinces in the People's Republic of China have shown that FDI has an impact on GDP, which in this case depends on the growth rate, the use of new incoming technologies and human capital.	It is stated to be positive due to absorption capacity and human capital.

Lensink and Morrissey, 2006	Studies conducted in developing countries between 1975 and 1998 revealed that FDI positively influences GDP, while fluctuations in FDI have a negative impact on GDP.	Positive
Alfaro et al., 2001	Between 1975 and 1995, the efficiency of the financial markets of the investing country was found to be the dominant effect of FDI on GDP.	Positive
Zhang, 2001	The study conducted between 1960 and 1997 in the Far East and Latin American countries found that FDI has a positive effect on GDP, which is due to export-oriented FDI, free market economy, high educational opportunities and human capital.	Positive
Nair-Reichert and Weinhold, 2001	In this study, which analyses the relationship between government policies based on outward orientation, FDI inflows and GDP, the causality from FDI to GDP is determined.	Positive
Obwona, 2001	Between 1981 and 1995 in Uganda, it was observed that political stability, macroeconomic policies and security situation were more important than support and incentives in creating investment attraction for FDIs and it was determined that FDIs contributed positively to GDP.	Positive
Campos and Kinoshita, 2002	A study conducted in 25 countries from Central and Eastern Europe and the former Soviet Union found that FDI plays a significant role in GDP. In such investment environments, industrialization and the presence of skilled human capital strongly influence the localization of technology.	Positive
Carkovic and Levine, 2005	Between 1960 and 1995, no significant effect of FDI on GDP was found in the study conducted in developed and developing countries. It was found to have uncertain effects only in 5-year periods.	Ambiguous
Nunnenkam and Spatz 2003	In this study, the importance of the status of the invested sector in the impact of FDI on GDP is expressed. With this approach, it is determined that FDI can positively affect GDP depending on the situational characteristics of the sector such as the ability to access domestic and foreign markets, information intensity, technological level and factor requirements.	Positive
Basu et al., 2003	A study carried out in 23 developing countries from 1978 to 1996 identified a causal relationship between FDI and GDP through a cointegration test.	Positive

	Notable differences were found between open and closed economies. In open markets, there is bidirectional causality between FDI and GDP in both the short and long term, whereas, in closed markets, causality only runs from FDI to GDP.	
Choe, 2003	In a study conducted in 80 countries between 1971 and 1995, a bidirectional causality relationship was found between FDI flow and GDP. However, the causality from FDI flow to GDP was found to be weaker than the causality from GDP to FDI.	Positive
Hansen and Rand, 2006	In a study conducted in 31 developing countries between 1970 and 2000, bi-directional causality was found between the level of GDP and FDI/GDP.	Positive
Merlevede and Schoors, 2004	The study of 25 developing countries analyses the importance of the timing and pace of reforms in the impact of FDI on GDP. Compared to their competitors, the impact on GDP of countries that have reformed at an earlier date is stronger, while the GDP of countries that have recently reformed is negatively affected. However, in general, it is determined that FDI is effective and this has a positive effect on gross domestic product.	Positive
Papaioannou, 2004	In the study conducted in 43 developing countries between 1993 and 2001, an inclusive manufacturing function was determined and it was found that the localisation of FDI flow has a strong effect on gross domestic product.	Positive
Mody and Murshid, 2005	In the study conducted in 60 developing countries between 1979 and 1999, the relationality of foreign capital flows on local investments was observed and it is expected that these flows trigger local investments and have a positive effect on GDP with the total increased investment rate.	Positive
Chowdhury and Mavrotas, 2005	Between 1969 and 2000, a study focused on Malaysia, Chile, and Thailand, which are considered emerging economies, discovered a causal relationship from GDP to FDI in Chile. In contrast, it found bidirectional causality between FDI and GDP in both Thailand and Malaysia using the Toda-Yamamoto test.	Positive

In their analysis of the location-related factors influencing investment, including Türkiye, they examined the level of investment flows into Türkiye from 1980 to 1998. They concluded that the real GDP growth rate serves as an indicator of the domestic market's attractiveness and has a positive and quantifiable effect on investment flows.

(Erdal and Tatoğlu, 2002). In a study involving countries such as Turkey, Jordan, Algeria, Morocco, Egypt and Algeria, it was concluded that foreign investment flows have a growth effect on gross domestic product (Bashir, 1999). In order to understand the relationship in detail, the answer to the question of whether it grows because it grows or whether it grows because it flows is related to entrepreneurship from domestic sources, but in the literature reviews, the effect of inward FDI flows on gross domestic product has been determined and it has been determined that this effect has short and long term outputs in its effect on gross domestic product.
H3: There is a positive relationship between inward FDI flows and gross domestic product.

3.2. The Relationship Between Entrepreneurship and Inward Foreign Direct Investment Flow

In the literature, it is stated that the entrepreneurial knowledge, the view of enterprises and the performance of enterprises change with FDI. It is highlighted that investment serves as a means of introducing knowledge and technological advancements to the host country. As the level of competition rises, entrepreneurial activity also experiences an upward trajectory (Baumol, 1990). While the benefits of such locally-effective foreign direct investments to entrepreneurs are mentioned, the formation of a sub-industry is observed in terms of specialisation. For example, the Toyota plant in Sakarya has developed local quality standards instead of managing a costly parts supply chain from Japan, but it is not common for foreign investments to encourage local entrepreneurship.
Developing economies need to measure the degree to which their economies are open to foreign entry, as many unregulated incentives for foreign firms act as barriers to innovative entrepreneurial activity. In the absence of competition regulations, investment by a foreign firm in a host country can harm sectoral entrepreneurship. Once foreign investment starts to harm the entrepreneurial economy, the number of investments resulting from innovative entrepreneurial culture decreases. In addition, the fact that domestic human capital earns more in foreign firms forces entrepreneurs to establish their own firms (Grossman, 1984). The main objective here should be a policy of localising foreign direct investments rather than damaging the entrepreneurial ecosystem through unplanned foreign direct investments.
In the literature reviews, it is observed that while the contribution of foreign investments to entrepreneurial culture in terms of knowledge spillovers is rare, in the short term, the damage to entrepreneurship is common due to the dominant effect of foreign investments. In the long term, the relationship indicates that foreign investment is drawn to regions with an entrepreneurial culture, and it is observed that foreign investments facilitated by entrepreneurship lay the foundation for sustainable development policies.
H2: There is a positive relationship between entrepreneurship and inward foreign direct investment flow.

3.3. The Relationship Between Innovation and Entrepreneurship

According to Schumpeter, the father of innovation-based entrepreneurship, entrepreneurship consists of an innovative personality. For this reason, the phenomenon of innovation constitutes the essence of entrepreneurship. Thus, entrepreneurs start with what is new in products, work structure, processes and organisational structure (Sundbo, 1998). Along with the changing world, entrepreneurship and innovation in international trade have been adopted as a critical phenomenon for countries to consolidate and increase their position in sustainable development programmes, globally integrated economic studies and international competition.
In the literature reviews, the effect of innovation on entrepreneurship has been determined and it has been determined that this effect causes sustainable investment appetite with the formation of entrepreneurial culture, which supports national development policies by considering international competition (Peljko et al., 2016).
H1: There is a positive relationship between innovation and entrepreneurship.

4. Material and Method

The conceptual model proposed in this study examines the relational model between innovation and entrepreneurship, entrepreneurship and inward FDI flows, inward FDI flows and gross domestic product. In the literature, it is stated that innovation increases entrepreneurship. Instead of inward FDI increasing entrepreneurship, it is seen that foreign investment comes to countries with high entrepreneurship and thus increases the gross domestic product. It has been analyzed that foreign investments entering countries lacking entrepreneurship are driven by various motivations, yet they contribute to an increase in GDP, albeit temporarily. Initially, the

relationships between the variables were examined using the Pearson correlation test, while causality was assessed through regression analysis and structural equation modeling as depicted in the conceptual model in Figure 1.
In this 43 country study, inward FDI flow data were obtained from the Organisation for Economic Cooperation and Development, gross domestic product data from the World Bank, entrepreneurship data from the global entrepreneurship index prepared by the Global Entrepreneurship and Development Institute, and innovation data from the global innovation index prepared by the World Intellectual Property Organization.

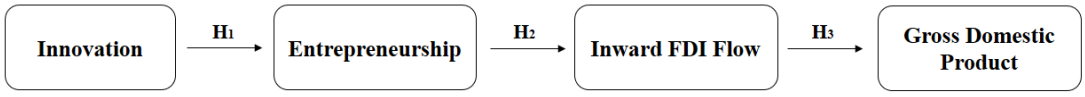

Figure 1. Conceptual Model

5. Analysis Result

The association between the two variables was initially examined through the calculation of the Pearson correlation coefficient. The findings shown in Table 2 reveal a strong and statistically significant correlation among the variables.

Table 2. Pearson Correlation Table

	Description	Entrepreneurship	Innovation	Inward FDI Flow	GDP
Entrepreneurship	Pearson Correlation	1	,838**	,182**	,156*
	2 way sign		,000	,008	,022
	Sample size	215	215	215	215
Innovation	Pearson Correlation	,838**	1	,204**	,199**
	2 way sign	,000		,003	,003
	Sample size	215	215	215	215
Inward FDI Flow	Pearson Correlation	,182**	,204**	1	,843**
	2 way sign	,008	,003		,000
	Sample size	215	215	215	215
GDP	Pearson Correlation	,156*	,199**	,843**	1
	2 way sign	,022	,003	,000	
	Sample size	215	215	215	215

** Correlation, significance level at 0.01 (two-tailed)
* Correlation, significance level at 0.05 (two-tailed)

According to Pearson correlation, it is determined that there is a very high correlation of 0,838 between innovation and entrepreneurship. This means that the relationship between these two variables is very strong. There is a weak correlation between entrepreneurship and foreign direct investment flows, as well as a similarly weak relationship between innovation and FDI flows. The relationship between the flow, which is a priority for us, and gross domestic product is very strong with 0.843.

Table 3. Regression Weights Table

Hypotheses			Estimate	Standard Error	Critical Ratio (t-value)	P value	Label
H_1: Innovation	→	Entrepreneurship	1,413	,063	22,499	***	par_2
H_2: Entrepreneurship	→	Inward FDI Flow	,076	,028	2,703	,007	par_3
H_3: Inward FDI Flow	→	GDP	,414	,018	22,929	***	par_1

The regression coefficient shows that innovation has a strong effect on entrepreneurship and the critical ratio is greater than 1.96 in the same relationship. Although the regression coefficient between entrepreneurship and foreign direct investments is not particularly strong, the critical value exceeding 1.96 and the p-value being less than 0.05 indicate a significant relationship. In the H3 hypothesis regarding the impact of foreign direct investments on gross domestic product, while the regression coefficient is moderately strong, the critical ratio value is very high. The p-value is below 0.001, indicating a high level of significance.

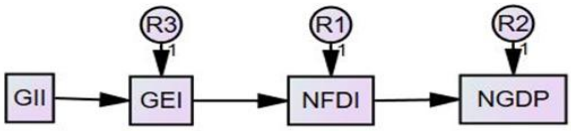

Figure 2. Amos Model

The analyses obtained in line with the model in Figure 2 are shared below.

Table 4. Model Fit Values

Compliance Scales	Good Fit Values	Model Fit Values
CMIN/DF	< 3	1,179
CFI	0,9 < CFI < 1	0,999
AGFI	0,9 < AGFI < 1	,973
GFI	0,9 < GFI < 1	,992
RMSEA	0 < RMSEA <0,05	0,029

In the fit analysis section of the model, the goodness of fit criteria indicate that the GFI value is a strong indicator of model quality, as it exceeds 0.9, with a value of 0.992. AGFI is considered successful since it exceeds 0.9 with a value of 0.973. The CMIN/DF value of 1.179 demonstrates the model's strong acceptability, as it is very close to 1. Additionally, it was found that our model aligns well with a CFI value of 0.999. Our NFI value shows that it has a high goodness of fit with 0.993. The RMSEA value was determined as the appropriate value with 0.029. In line with all this information, it is seen that the model is valid.

6. Conclusion and Discussion

This study examines inward FDI flows, entrepreneurship, and the innovation factors that support entrepreneurship within a comprehensive framework. The conceptual model, grounded in existing literature, is tested using five years of data from 43 countries across six continents. The primary research question revolves around whether inward FDI

is attracted to countries with high GDP or if FDI flows contribute to GDP growth. In this framework, the effects of entrepreneurship and innovation on this relationship were analysed.

The findings strongly support the H1 hypothesis that innovation fuels entrepreneurship. Innovation has a significant and positive effect on entrepreneurship, which is consistent with the existing findings in the literature. Within the scope of hypothesis H2, it is determined that FDI is sensitive to entrepreneurship, but this relationship has a bidirectional dynamic. While it is observed that FDI flows increase in countries with high levels of entrepreneurship, it is also determined that foreign investments may harm the entrepreneurship ecosystem in some cases. This finding supports the discussions in the literature by showing that foreign capital may have the potential to suppress local entrepreneurial activities.

Analyses conducted within the scope of hypothesis H3 revealed that GDP is affected by inward FDI and this relationship is statistically significant. This result is consistent with endogenous and neoclassical growth theories and shows that FDI both contributes to short-term growth by increasing the volume of investment and supports long-term growth through technology transfer (Nair-Reichert & Weinhold, 2001). Moreover, it is concluded that innovation stimulates FDI flows through entrepreneurship and thus indirectly contributes to GDP growth.

The findings of the study have important implications for policy makers. Policies that focus on short-term growth may harm local resource-based sustainable development goals in the long run. Therefore, policies that promote a culture of innovation and support specialised entrepreneurial ecosystems can both strengthen FDI flows by increasing investment attractiveness and make GDP growth permanent. However, it should be recognised that the relationship between entrepreneurship and FDI is not always strong and that foreign investments can damage the entrepreneurial ecosystem. Therefore, short-term plans to increase GDP need to be structured to be in line with long-term development strategies.

Future studies could benefit from a more comprehensive analysis of these relationships, as well as an evaluation of how the absorptive capacity of countries impacts the local economy, potentially leading to more robust policy recommendations.

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