The Determinants of Economic Growth in Turkey : 1980 - 2010

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ABSTRACT

Many factors affect economic growth, some factors increasing economic growth and others decreasing economic growth. Economic growth is usually measured by the percentage rate of increase in gross domestic production (*GDP*). The study focuses on investigating determinants of economic growth in Turkey. The study used annual time series data from 1980 - 2010. This study used the variables; foreign direct investment (*FDI*), export (*EXP*), inflation (*INF*) and government debt (*GD*) are used as determinants of economic growth in Turkey. The test for the unit roots has been performed by employing the Augmented Dickey Fuller (ADF) test. Long run and short run estimation have been investigated by using Johansen Cointegration and Error Correction approach. The findings of the study reveal that in the long run economic growth in Turkey is positively influenced by *FDI* and *EXP*. These variables have significant positive impact on *GDP* in the long run. If *FDI* and *EXP* are increased by USD1 million, *GDP* is increased by USD942.29 million and USD247.19 respectively. *INF* has a positive impact on *GDP*. When *INF* is increased by one percent, *GDP* will increase by USD83495.44 million. Although, this result is contradictory with the theories and many evidences, but it is still supported by Datta and Mukhopadhyay (2011). On the other hand, the GD is statistically significant and has a negative effect on *GDP*. In the short run, lag one of *GDP*, *EXP* and *GD* are among all those independent variables that have short run impact on *GDP*. Even though *FDI* and *INF* are statistically significant in the long run, but in the short run, they are not significant variables.

ABSTRAK

Terdapat banyak faktor memberi kesan kepada pertumbuhan ekonomi. Beberapa faktor meningkatkan pertumbuhan ekonomi dan beberapa faktor lain mengurangkan pertumbuhan ekonomi. Pertumbuhan ekonomi kebiasaannya diukur oleh Keluaran Dalam Negara Kasar (*GDP*). Kajian ini memberi tumpuan kepada penyiasatan penentu-penentu pertumbuhan ekonomi di Turki. Bagi mencapai tujuan itu, kajian dianalisis menggunakan data siri masa tahunan bagi tempoh 1980 - 2010. Dalam pembentukan model, kajian ini menggunakan pembolehubah pelaburan langsung asing (*FDI*), eksport (*EXP*), inflasi (*INF*) dan hutang kerajaan (*GD*) sebagai penentu pertumbuhan ekonomi di Turki. Ujian untuk punca unit telah dilakukan dengan menggunakan ujian Augmented Dickey Fuller (ADF). Penganggaran hubungan jangka panjang dan jangka pendek telah disiasat dengan menggunakan Analisis Kointegrasi Johansen dan Model Pembetulan Ralat. Dapatan kajian menunjukkan bahawa pertumbuhan ekonomi di Turki dipengaruhi oleh *FDI* dan *EXP* dalam jangka masa panjang. Kedua-dua pembolehubah memberi kesan positif yang signifikan terhadap *GDP* dalam jangka masa panjang. Jika *FDI* dan *EXP* meningkat sebanyak USD1 juta, *GDP* masing-masing meningkat sebanyak USD942.29 juta dan USD247.19. INF juga mempunyai kesan positif ke atas *GDP*. Apabila *INF* meningkat sebanyak satu peratus, *GDP* akan meningkat sebanyak USD83495.44 juta. Walaupun demikian, keputusan ini bercanggah dengan teori-teori dan bukti-bukti kajian lepas, tetapi ianya menyokong penemuan oleh Datta dan Mukhopadhyay (2011). Sebaliknya, *GD* statistik mempunyai kesan negatif ke atas *GDP*. Dalam jangka pendek, *EXP* dan *GD* antara semua pembolehubah bebas yang mempunyai kesan yang signifikan ke atas *GDP*. Walaupun *FDI* dan *INF* signifikan secara statistik dalam jangka masa panjang, tetapi kedua-dua pembolehubah tidak signifikan dalam jangka pendek. dalam jangka pendek, mereka.

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INTRODUCTION

1.1 INTRODUCTION

This chapter provides a general introduction of the study. It includes six main sections, namely; the first section introduces the background of the study while the second one is about the problem statement. The third section of this chapter examines the research questions. The objectives of the study are stated in fourth section. The significance of the study is stated in the fifth section. Lastly, in the sixth section the organization of the study is unlined.

1.2 BACKGROUND OF THE STUDY

It is always fascinating for economists to ask why some countries grow faster than others. Why some countries are richer than others? What is the engine to drive economic growth? These questions have plagued economists and policy makers for decades. The differences between developing and developed countries are many. Some countries have become more reliant on consumer goods, intermediate goods and capital from their trading partners. More importantly, countries increasingly depend on technology transfer from abroad for increasing economic growth.

The beginning of 1980s constituted a turning point in the economic life of Turkey. At that time, the Turkish government decided to shift the economy from an inward oriented and protective system to an outward oriented and liberalized environment. In 1980, it initiated a series of reforms to accomplish a major policy shift from import substitution to

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