Effects Of Financial Development on Foreign Direct Investment İn Selected Asian Countries

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Abstract: Countries want to increase direct foreign investment for various reasons, such as technology transfer, increasing employment, ensuring growth and development, filling the gap in savings. Direct foreign investment (FDI) has a significant impact on the development of the economy, especially in developing countries. For many years, it was discussed whether financial development affects foreign direct investment in countries. The purpose of this study is to study the relationship between financial development and foreign direct investment in a sample of 39 Asian countries selected for the period 2010-2017, taking into account the importance of foreign direct investment for developing countries. In this connection, the influence of the level of financial development of target countries on foreign direct investment was checked using the generalized method of moments (GMM). As a result of the analysis, it was noted that financial development does not affect direct foreign investments in a certain model. According to the results, economic development plays an important role in FDI, providing stronger investors and expanding access to direct foreign financing through financial development. However, local conditions may limit the degree of realization of FDI advantages.

Keywords: Financial Development Index, Foreign Direct Investment, GMM, Developing Countries, Asian Countries.

آثار التنمية المالية على الاستثمار الأجنبي المباشر في دول آسيوية مختارة

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المستخلص: ترغب الدول في زيادة الاستثمار الأجنبي المباشر لأسباب مختلفة، مثل نقل التكنولوجيا، وزيادة فرص العمل، وضمان النمو والتنمية، وسد الفجوة في المدخرات. للاستثمار الأجنبي المباشر (FDI) تأثير كبير على تنمية الاقتصاد، وخاصة في الدول النامية. لسنوات عديدة، نوقش ما إذا كان التطور المالي يؤثر على الاستثمار الأجنبي المباشر في الدول. والغرض من هذه الدراسة هو دراسة العلاقة بين التطور المالي والاستثمار الأجنبي المباشر في عينة من ٣٩ دولة آسيوية مختارة للفترة ٢٠١٠-٢٠١٧، مع مراعاة أهمية الاستثمار الأجنبي المباشر للدول النامية. وفي هذا الصدد، تم التحقق من تأثير مستوى التطور المالي للدول المستهدفة على الاستثمار الأجنبي المباشر باستخدام طريقة اللحظات المعممة (GMM). ونتيجة للتحليل، لوحظ أن التطور المالي لا يؤثر على الاستثمارات الأجنبية المباشرة في نموذج معين. ووفقًا للنتائج، تلعب التنمية الاقتصادية دورًا مهمًا في الاستثمار الأجنبي

المباشر، حيث توفر مستثمرين أقوى وتوسع الوصول إلى التمويل الأجنبي المباشر من خلال التطور المالي. ومع ذلك، قد تحد الظروف المحلية من درجة تحقيق مزايا الاستثمار الأجنبي المباشر.

الكلمات المفتاحية: مؤشر التنمية المالية، الاستثمار الأجنبي المباشر، آلية السوق المالية العالمية، الدول النامية، الدول الآسيوية.

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Introduction

Many countries seek to attract foreign direct investment (FDI) as they believe that multinational companies will contribute to economic growth by creating new job opportunities, increasing capital accumulation and total factor productivity. Plenty of empirical evidence shows that FDI tends to generate net gains for countries (Moran, 2001; Navaretti and Venables, 2005). The effects of FDI that increase economic growth in terms of countries have drawn attention to this area and brought about a comprehensive investigation of its determinants.

Economic growth is the ultimate goal of all developed or developing countries. In line with this goal, countries follow different economic policies. One of these policies is foreign capital investments, which are evaluated within the framework of an open economy approach. Foreign capital, which is generally examined in two parts as direct and indirect, is a highly debated issue in the literature, especially whether it has an impact on the development of developing countries. In particular, the effects of real investments, which are expressed as foreign direct capital, on national economies are more important for developing countries that have financing problems in investment. Studies in the literature (Balasubramanyam et al., 1996; Agarwal, 2001; Eicher et al., 2012; Blonigen and Piger, 2014; Desbordes and Wei, 2014) have shown that FDI has an impact on local economic activities, productivity, employment, taxation and economic growth in general. has been shown to be effective. Knowing the determinants of FDI, especially in developing countries, will be able to guide the policy makers of these countries. In studies on the determinants of FDI (Onafowora and Owoye, 2018; Türedi, 2018; Jha, 2019; Kılınç, 2020), the determinants of FDI are mostly GDP, GNP, economic growth rate, inflation rate, exchange rates, trade openness, market size, cultural and physical proximity, relative labor market endowment, corporate tax rates and financial development, human capital and management variables are discussed.

In this study, the effect of financial development level, which is a less concentrated indicator in the literature, on FDI was investigated. Considering the importance of the subject for developing countries, Asian countries, whose data can be accessed as a sample, were analyzed. Although there are many measurement techniques of financial development, this study is based on local loans allocated to the private sector by banks and other financial intermediaries. This measure of financial development, which reflects the actual use of external debt financing in the economy, is widely used in the growth, finance and international trade literature (Levine, 2005: 921). In this context, the relationship between FDI made directly to 39 Asian countries and the financial development index was examined using the generalized method of moments (GMM) method for the period 2010-2017. The results of the analysis are expected to be a guide especially for policy makers regarding FDIs. In addition, it is expected to contribute to the literature, considering that there is a sample that has been little analyzed in this context before.

After the first introductory part of the study, the concept of financial development is explained in the second part, the theoretical part about the relationship between the level of financial development and FDI is included, the third part includes the literature on the subject, the fourth part includes data and method, the fifth part analyzes and findings, and the sixth part presents the data and methods. In this section, the study ends with a general evaluation of the findings.

1st: Conceptual and Theoretical Framework

1- Financial Development Concept

Financial development means an increase in the number and diversity of financial instruments and institutions that make up the financial structure. Along with financial development, the financial system is undergoing changes both in terms of its size, efficiency and stability, and in terms of access to financial instruments due to its structure (Afşar and Afşar, 2010: 51; Aslan et al., 2019: 650). In relation to this, the concept of financial deepening is used to explain the development of the financial system. Financial deepening, which shows the breadth of the financial system and the diversity of financial instruments, is also measured as the ratio of the total financial assets in an economy to national income. Although the share of the banking system is large in an economic structure in which financial markets are shallow, which represents the initial stage of financial development, financial deepening occurs with the continuation of financial development and economic growth, and the share of the banking system in the financial system decreases. With financial development, the share of intermediaries that provide their funds from financial instruments other than deposits, such as mutual funds, investment companies, private pension companies, insurance companies and financing companies, is increasing. In addition to the number of financial intermediary institutions and instruments, the high diversity of them ensures that transactions are increased, funds are transferred more easily and effectively, and shows financial development (Afşar and Afşar, 2010: 51-54).

The increase in the level of development of the financial system enables the financial system to fully fulfill its functions such as reducing risks, producing information and distributing capital, and collecting savings in a pool, thus transferring the resources created by savings to productive areas (Afşar and Afşar, 2010: 51). The development of the financial system causes the savings needed for investments to increase. An advanced financial system reduces the costs of acquiring information, ensuring that savings are used from the most efficient to the most inefficient, respectively, and accelerates investments. With financial development, the liquidity level of financial markets increases and the buying and selling of financial instruments becomes easier. For example, while the liquidity of the stocks of companies in a developed stock market increases, the cost of capital decreases and this can be attractive for foreign investors (Kılınç, 2020: 47).

The degree of financial development of the host country is one of the main determinants of foreign direct capital flows (Nwosa and Emma-Ebere, 2017: 182). Other determinants of FDI include growth, inflation, economic openness, monetary policy, political and institutional factors (Louil and Zouita, 2021: 29).

2- The Relationship Between Financial Development and Foreign Direct Investments

Economic growth is realized by the increase in production and production capacity. Ensuring economic growth is possible by increasing the investments that constitute the capital accumulation (İnal and Beşel, 2018: 166). Capital, which is the input of production, is one of the most important inputs used to explain the differences in development (Karhan and Akbulut, 2019: 227). Foreign direct investment investments are generally needed in developing countries with insufficient domestic savings to ensure sustainable economic growth and development (Öztürk and Bayar, 2021: 2583). Foreign direct investment; It occurs as the establishment of a new company with a new investment made by a foreign company, opening a branch, building a new facility, purchasing an existing company in whole or in part, merging with a company, taking part in collaborative ventures and making license agreements (Karhan and Akbulut, 2008). 2019: 227). In addition to the acquisition of a company in a country, foreign direct investments, which are realized in the form of providing founding capital for a newly established company or increasing the capital of an existing company, support growth by providing capital, technology, knowledge, employment and productivity increase in these countries (İnal and Beşel, 2018: 166).

Although the financial sectors of the countries whose economic situation is weak and have not completed their financial development show a good performance, they are not successful in attracting foreign direct investment. FDI and growth increase when there is a developed financial sector (Saira et al., 2019: 53). In an economy with a high level of financial development, low transaction costs provide information at reasonable cost, efficient use of financial resources,

diversification of risk and hedging, and increasing FDI by improving returns on investments. Financial development requires the establishment of sound financial policies and regulatory frameworks that have a major impact on the level of domestic investments funded by financial institutions. Therefore, the lack of an adequate and developed financial sector can have negative effects not only on domestic investments, but also on the ability of financial institutions (structure) to attract foreign capital inflows (Nwosa and Emma-Ebere, 2017: 182).

Financial development is a key determinant for economic growth and development, as well as a facilitator. An advanced financial system showing the level of financial development provides an efficient distribution of resources, monitoring, symmetrical information and an efficient environment for economic growth. The financial system contributes to economic performance by activating the resources that finance investment projects, on the other hand, by examining and monitoring investment projects and increasing the effectiveness of projects. The sophistication of the financial system also provides multinational companies with the opportunity to borrow to expand their innovative investment activities that will lead to technology transfer to domestic companies. Apart from these, the level of financial development increases resilience against crises such as currency crises and financial crises (Choong, 2012: 821). These features of the level of financial development create a suitable environment for foreign direct investment.

The increase in money supply in the country where foreign direct investments are made causes an increase in the amount of funds used by the financial markets and banking sector (Ege and Şahin, 2014:10). The capital increase with the inflow of foreign direct investment to countries with a high level of financial development positively affects the lending opportunities of banks and other financial intermediaries (Kılınç, 2020: 46). A developed financial market and system with a high volume of financial capital can create the opposite effect by encouraging the entry of foreign direct investments into that country (Ege and Şahin, 2014:10). The development of the financial system and the increase in the level of financial development increase the confidence of the investors and increase the investments (Çelik, 2019: 66; Kılınç, 2020: 46). Increasing capital accumulation by making investments is also effective in attracting foreign direct investments (İnal and Beşel, 2018: 166; Çelik, 2019: 66).

Financial development needs to be achieved in host countries for FDI to serve as a tool to accelerate economic growth. The stronger the level of financial development, the more FDI can stimulate economic growth. Therefore, all countries should encourage higher financial development to enable FDI to drive growth. However, it is important how much the level of financial development needs to be increased in order to ensure that economic growth benefits from foreign direct investments. However, in the event of a financial crisis, the high level of finance in the economy may harm growth and the economy may suffer. For this reason, the financial system should be well organized against crises (Bahri et al., 2019: 3-4).

In addition to foreign direct capital, many factors affecting economic growth and similar economic activity have been investigated in the literature. In these studies, it was observed that many factors such as banking sector efficiency, energy prices and social policies were addressed (Klein and Ariss, 2022; Geise and Piłatowska, 2022; Kim and Vera, 2022; Aban and Vigonte, 2022). Another factor affecting economic activity is financial development (Singh, 2022; Onyekachukwu and Samuel, 2022). On the other hand, socio-economic factors such as income inequality, budget balance and industrial production are also affected by financial development (Séraphin and Cyrille, 2022; Son, 2022; Chletsos and Sintos, 2022; Olayungbo et al., 2022). However, there are also studies on the effect of financial development on foreign direct capital (Nwosa and Emma-Ebere, 2017; Desbordes and Wei, 2017; Karhan and Akbulut, 2019; Aslan et al., 2020). This study differs from the others in terms of sample and method, and it is expected to contribute to the literature with this aspect.

2nd: Literature Review

The dynamic relationship between financial development and FDI has attracted great attention in recent years. The reason for this is the need for FDI of countries and especially the countries that

constitute the sample of this study. However, in the last few years it has been observed that many studies have been conducted using different econometric tools and covering various countries, including a number of control variables. While many empirical studies have focused on a specific country, others have focused on a group of countries within the panel data frame using different methodologies and timeframes, with conflicting findings. Some of these are those:

Hanson (2001) in his study using a sample of G-24 countries for the years 1990-1998, observed weak evidence that FDI has generally positive effects for countries. When the literature on investments from foreign countries to domestic companies is examined, Görg and Greenaway (2004) concluded that the effects of foreign direct investments are mostly negative in their study on 60 countries. Choong (2012), in his study, examined the relationship between foreign direct investment, financial development and economic growth using generalized moment (GMM) panel data analysis method for 95 developed and developing countries from 1983 to 2006. In the study, it was concluded that the national financial system is an important prerequisite for FDI to have a positive effect on economic growth, and it was stated that it was necessary to improve the financial system in order to benefit more from FDI.

Anyanwu (2011) in his study covering the African region for the period between 1980 and 2007, concluded that the increase in financial development has a negative effect on FDI. Çiftçi and Yıldız (2015) reached the conclusion that financial development has a positive effect on FDI in their study for Turkey using the 1974-2012 period data. Felek et al. (2017) in their study covering Turkey and EU countries in the period of 2005:1-2012:4, they determined that financial development and economic growth do not have an effect on FDI alone, but they both have a positive effect on FDI (Özen and Kıdemli, 2020: 650). Nwosa and Emma-Ebere (2017) examined the relationship between FDI and financial development using the 1980-2015 period data for Nigeria in their study. While they found a positive relationship between financial market development and FDI in the short run, they found a negative relationship in the long run. Desbordes and Wei (2017) investigated various structural effects of financial development on FDI in their study on multinational companies for the years 2003-2006. As a result of the study, they found that the financial development of countries directly supports FDI by increasing access to external finance and indirectly supporting economic activity in general. Mamingi and Martin (2018) empirically investigated the relationship between FDI and economic growth, using the generalized method of moments (GMM), with annual data covering the period 1988-2013 of 34 countries. In their study, they showed that although FDI has a positive effect on growth, its effect is minimal. Keykanloo et al. (2019) examined the relationship between financial development and FDI for 11 countries in their study covering the period 1990-2014, and as a result of the study, they found that the variables used for financial development reduce FDI. Saira et al. (2019) examined the relationship between FDI and the level of development of the financial market for the years 1994-2016 using the Panel ARDL method in four developing South Asian countries consisting of India, Pakistan and Sri Lanka, Bangladesh. They found a positive relationship between FDI and the level of financial market development. Karhan and Akbulut (2019) examined the effect of financial development and financial stability on FDI for the period 2009-2018 using the ADF Unit Root Test and the stagnation situation using the Rolling Windows Causality and Parameter Estimation Method. They found that financial stability had a positive effect on FDI after 2013.

Shahbaz et al. (2022) examined FDI and financial development for 39 countries for the period 2000-2019, taking into account the important factors of renewable energy demand. The results of the analysis show that the scale effects exerted by FDI and financial development are overridden by the technical and compositional effects, and thus the renewable energy demand and thus the renewable energy consumption increase with the progression of economic growth. As can be seen, it has been observed in the literature that studies on the subject are generally concentrated in developing countries. Apart from this, there are studies that have found that financial development has a positive effect on FDI, as well as studies that have found that it has a negative effect. When the domestic and foreign literature is examined, some of the studies examining the relationship between the financial developments of countries and FDI have examined the effect in one country

or the effect in several countries. Others have examined the causality relationship in one or more countries. As in this study, no study was found that investigated the relationship on a large regional sample and within the framework of policy arrangements.

The positive effect of foreign direct capital, especially on the economic activities of developing countries, is a general result observed in the literature (Choong, 2012; İnal and Beşel, 2018). On the other hand, the capital increase realized with the inflow of foreign direct investment to the countries with a high level of financial development positively affects the lending opportunities of banks and other financial intermediaries (Kılınç, 2020). Considering the importance of foreign direct investments, especially for the developing countries that constitute the sample of this study, the findings of the study will give the relevant stakeholders an idea about both concepts. In addition, the fact that the impact of financial development on foreign direct capital is not clear (Nwosa and Emma-Ebere, 2017; Desbordes and Wei, 2017) makes the issue attractive for relevant stakeholders. Revealing this relationship is important in terms of financial development-real sector interaction.

3rd: Data and Method

1- Data and Methodology

This study examines the relationship between FDI and financial development in 39 Asian countries for the period 2010-2017. The main reason for considering Asian countries in the study is that most of the countries in question are in the category of developing countries, they have been the driving force of global economic growth in recent years, and their financial development degrees and backgrounds are close to each other. The list of countries used in the study is in Annex-1. While "foreign direct investment" was used as the dependent variable, "financial development index", "share of imports of goods and services in total GDP", "share of public final consumption expenditures in total GDP" and "growth rate of GDP" were used as independent variables. . Data are from the International Monetary Fund (IMF) and the World Bank.

The financial development index used for financial development in the study consists of normalizing the variables found in the literature on reducing multidimensional data to a single summary index, collecting normalized variables in sub-indices representing a certain functional dimension, and collecting sub-indices in the final index (IMF and World Bank database). It is created using a three-stage standard approach (Svirydzenka, 2016: 5). Existing empirical studies do not take this multidimensional approach into account in constructing the financial development index.

There are many studies in the literature that try to measure the impact of financial development on economic growth, inequality and economic stability. A typical empirical study approaches financial development with one of two measures of financial depth: the ratio of private credit to GDP or the ratio of stock market capitalization to GDP. However, these indicators do not take into account the complex multidimensional financial development process. To correct this point, the Financial Progress Index was developed. The Financial Development Index summarizes how developed financial institutions and financial markets are in terms of depth, reach and efficiency (Svirydzenka, 2016: 7).

In the presence of lagged dependent variables, Arellano and Bond (1991) suggest using the difference GMM estimation. The difference GMM estimator transforms the data, removing fixed effects and using lagged values as variables, addressing the issue of endogenity (intrinsicity). According to Blundell and Bond (1998), the Difference GMM method has low sensitivity in samples with a short time period and high continuity. Also, when the number of time periods is small, the difference GMM may be subject to large sampling bias (Alonso-Borrego and Arellano, 1999: 39). For this reason, the System GMM method developed by Arellano and Bover (1995) and Blundell and Bond (1998) was used in the study. In addition, the fact that the error term is associated with the lagged variable of FDI leads to inconsistent estimates. This is another reason to use System GMM. This method reduces the changes in FDI to the lagged values of the relevant variable and to the lagged values of the other independent variables. Thus, while the possible bias in

samples with a small number of observations is reduced, the asymptotic erroneous measurement associated with difference estimators is also reduced (Ghosh, 2015). As a result, the system GMM estimator improves efficiency by using both lagged levels and lagged differences. This method ignores the unit root and cross-section and obtains the autocorrelation value with AR values. System GMM estimator techniques were applied to determine the robustness of the results and as a solution to the internality problem.

In the study, the fixed effects of the three control variables consisting of lagged dependent variables, openness, GDP and management, were eliminated by using GMM, so that the direct relationship between the financial development index and FDI could be examined. Because, the effects of control variables, whose effect is not curious but have the potential to affect the indicator measured as a dependent variable, can be controlled by various experimental or statistical techniques.

2- Empirical Model

In the study, a total of four independent variables were used, three of which were control variables, and a model was created with these variables. The reason for including control variables in the model is that they are important variables that have the potential to indirectly affect financial development and FDI. The relationship between FDI and financial development will be tested with the help of the following model:

$$FDI\ it = \beta_0 + \beta_1\ FDI\ i(t-1) + \beta_2 FGEit + \beta_3\ CLARITY\ it + \beta_4\ MANAGEMENT\ it + \beta_5 GDPit + \varepsilon it$$

Here;

FDI: share of foreign direct investment in total GDP,

FGE: Financial development index,

CLARITY: The share of imports of goods and services in total GDP,

MANAGEMENT: The share of public final consumption expenditures in total GDP,

GDP: It is the growth rate of GDP.

Openness is often measured as the ratio of exports and imports to GDP. The increase in the degree of openness attracts more FDI into the country due to the thought that FDI is generally directed towards tradable sectors. Market size is another determinant of FDI, and GDP or GDP per capita is used as an indicator of market volume. Factors such as high income level and large markets that increase domestic demand affect FDI. FDI tends towards high-income countries where demand is high and market volume is large (Bal and Akça, 2016: 94-95). The increase in the weight of the public sector in the economy and the increase in total demand, which is explained by the increase in the ratio of public expenditures to GDP, positively affects FDI. However, if there is an imbalance between public expenditures and public revenues, budget imbalance and budget deficits will occur. Budget deficits will increase the public sector borrowing requirement, which will lead to higher interest rates. Interest expenditures in the budget will gradually increase. The high level of budget deficit can be accepted as an indication of the ineffective and bad management structure of the public sector, especially in developing countries. This may cause the budget imbalance to become a variable that increases the investment risk and worsens the investment environment by creating macro-level economic and political instability for FDI (Uygur, 2012: 99-101). Because investors do not like risk, they prefer countries with less uncertainty (Özcan and Arı, 2010: 70). High inflation will occur if large budget deficits or debts are financed by printing money. High inflation is another indicator of macroeconomic imbalances and uncertainties. With high inflation, policy uncertainty occurs in the economy, the efficiency of the tax system is lost and informal transactions become widespread. Therefore, high inflation affects FDI negatively and reduces it (Uygur, 2012: 101). Increasing uncertainties and risk with budget imbalances and high inflation cause political instability by destabilizing governments (Topaloğlu and Korkmaz, 2021: 98). Countries with political turmoil or where public investment is a threat are considered more risky, which significantly reduces the inflow of foreign direct investment into those countries. On the other hand, in countries with a property right guarantee and political stability, capital inflows are easier with a

positive investment environment and the lowest political risk (Schneider and Frey, 1985: 161; Oransay and Mike, 2016: 98-99). It is important for the country to have political stability so that the actors in the market, which consists of both domestic and foreign investors, can accurately predict the distant future and therefore make rational plans (Erdoğan, 2012: 66).

4th: Findings

In this section, the results obtained as a result of the analysis of the variables are given. Table 1 presents descriptive statistics for FDI and other variables. The share of FDI in countries varies between -2.05 and 2.29. Financial development, on the other hand, varies between 0.07 percent and 0.88 percent. The management variable varies between 0.70 and 1.56 percent, and the openness variable varies between -1.18 and 0.31. The control variable GDP, on the other hand, varies between -25.90 and 4.08.

Table (1): Descriptive Statistics

	Average	Maksimum	Minimum	Standard Deviation
FDI	0,422693	2,296828	-2,054659	0,550101
FGE	0,358237	0,880000	0,070000	0,194557
GDP	4,692494	20,62560	-25,90717	4,088278
MANAGEMENT	1,125707	1,561556	0,702374	0,172175
CLARITY	1,600092	2,244947	-1,181249	0,314446

Table 2 shows the cross-correlation table. The level in the financial development index is negatively related to FDI. The independent variable, the management variable, also shows a negative correlation with FDI. Openness and GDP variables are positively related to FDI. The absence of high correlation between the variables is important for the direction of the variables.

Table (2): Correlations Between Variables

	FDI	FGE	GDP	MANAGEMEntnt	CLARITY
FDI	1,000000				
FGE	-0,082483	1,000000			
GDP	0,180545	-0,065285	1,000000		
MANAGEMENT	-0,208844	0,262967	-0,291107	1,000000	
CLARITY	0,367426	0,079725	-0,058833	-0,001810	1,000000

The relationship between FDI and financial development and control variables is given by the results of the system GMM test in Table 3. In order to measure the effectiveness of the variables, the insignificance of the J test, also known as the Sargan test, and the acceptance of the null hypothesis show that the variables are sufficient and valid, but also give more confidence in the model. Since the J-statistics probability value is meaningless in the established model, the independent variables used are considered to be significant. The reported p values for AR(1) and AR(2) are autocorrelation in the first and second order, first difference equations.

Table (3): System GMM Estimate Results

Dependent Variable: FDI			
		Coefficient	P-Probability Value
FDI(-1)		0,437958	0,000***
FGE		-0,039105	0,662
GDP		0,006115	0,000***
MANAGEMENT		-0,339483	0,000***
CLARITY		0,368609	0,143
J testi	7,60		0,269
AR(1)			0,000
AR(2)			0,737

Note: (*), (**) and (***) indicate 10%, 5% and 1% significance, respectively.

According to Table 3, it is seen that financial development has no effect on FDI. This finding is consistent with the findings in the studies of Dutta and Roy (2011) and Jha (2019). The reason why financial development does not have an effect on FDI may be that political stability plays an important role in this context, considering that the countries studied are developing countries. Some factors such as the stability of governments, investment profile and socioeconomic status are important for investment. Therefore, a relatively developed financial infrastructure may not be sufficient to attract foreign investments if there are political instability in a country.

In the study conducted by Swamy (2015), it was found that the share of general government final consumption expenditures in total GDP affects FDI significantly and negatively, as well as the finding that GDP affects FDI significantly and positively. These findings show that increased government spending is important for investors' investment decisions. General government final consumption expenditures significantly affect the government's borrowing decisions, which in turn affects the government debt level. Governments collect debt to support public and profitable investments through public spending (both in physical infrastructures and human resources). The growth size of gross fixed capital formation affects the level of government debt, as the government tries to strengthen the economy by undertaking fixed capital formation activity to make the economy grow faster. The findings of this study show that this situation is seen as a risk factor for investors and investors withdraw themselves.

Conclusion

In this study, the effect of the development in the financial development index on FDI was examined by using the system GMM estimator on 39 Asian countries for the period 2010-2017, using various financial variables. As a result of the study, it has been determined that financial development does not affect FDI in the model created with the help of various control variables. Hermes and Lensink (2003), Alfaro et al. (2009) and Nasir et al. (2017) also reached a similar finding in their study. Instead, it has been observed that the management variable, which is the share of public final consumption expenditures in total GDP, has an effect on FDI. Alfaro et al. (2009) study, FDI can play an important role in economic growth by increasing productivity rather than capital accumulation, but local conditions are important and can limit the degree of realization of FDI benefits. Economic development plays an important role in FDI, protecting stronger investors and increasing access to direct external finance by financial development. Governments wishing to facilitate the internationalization of their firms and attract foreign multinational enterprises should take measures to improve access to external finance. FDI can help improve the financial conditions of countries that are at risk of making the economy more vulnerable to international financial shocks (Goldberg, 2009; Cetorelli and Goldberg, 2010). Therefore, a country's growth strategy should be shaped around a well-managed and adequately regulated financial system with strong local foundations. For this, more prudent policies can be developed that include removing barriers that prevent local firms from making adequate connections, improving local firms' access to inputs, technology and finance, and regulating procedures for selling. This will maximize the net benefits of financial development for both local and foreign investors. It is also necessary to improve domestic conditions in order to attract foreign investment, which will have a mutually positive effect and in which host economies can maximize their benefits from such foreign investment. It should be taken into account that this study basically has data and sample limitations. In future studies, different country groups can be considered or the relationship between different control variables and financial development index and FDI can be examined.

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APPENDİCES

APPENDIX-1: List of Countries Analyzed

Israel Iran Oman
Azerbaijan Japan Pakistan Philippines
Bahrain Jordan Qatar Saudi Arabia
Bangladesh Kazakhstan Singapore Tajikistan
Bhutan Kuwait Thailand East Timor
Brunei Kyrgyzstan Turkey Turkmenistan
Cambodia Lebanon B. Arab Emirates Uzbekistan
China Malaysia Vietnam Myanmar
Cyprus Maldives Indonesia Nepal
Georgia Mongolia India Armenia