

CHAPTER 6

CONCLUSION

6.1 Overall Review of the Study

In light of the growing concern over the government debts, high indebtedness is increasingly seen as a serious and major problem for both advanced and emerging economies. Economic policies are being set to tackle this matter and to provide more long term solution that curb unmanageable debts. Over the past decades and even last century, we have observed a tremendous increase in the level of FDI and TO. Historical examples shows that the changes in the economic sphere triggers enormous diversities and complexities within the world economy. In an effort to contribute to the on-going discussion, this study primarily involves in testing three main factors that played a significant role in the modern economies.

The key emphasis is to comprehend the impact of the foreign direct investment inflows (FDI), openness to trade (TO) and external debt (ED) on economic growth. The focus of the study is based on the context of Ottoman Empire over a period from 1881 to 1913. This study considerably extends and strengthens results presented in the prior literatures. Historically, the OE signifies an explanatory example that can be used to show the importance of the motioned macroeconomic determinants in monitoring the performance of an economy. This is because the OE existed for so many years and its dramatic collapsed as consequences of numerous factors including macroeconomic aspects. It is therefore reasonable to contend that this study attempts to make the economic pattern of Ottoman more obvious by forming certain interrelationship that

intend to measure the resilience of economic growth using historical data. In doing so, the time series estimation is adopted using annual data from 1881 to 1913.

More specifically, three main issues are addressed in this thesis. Firstly, is to examine the potential macroeconomic determinants for FDI in OE. The concern over FDI was undeniable since it is catalysts for economic, social and political progress of Ottoman economy and the interest's level that was given by the government in promoting the flow of FDI. The second matter is the external debt which is largely relevant to the financial control of European powers who tried to intervene into the domestic affairs using the OPDA as a tool. The notion that ED is one of the major impediment to foster economic growth receives more academics and policy makers' attentions. Given this fact, attempting to establish more synthetic analysis on the determinants of ED seems to be empirically significant. The third key issue is pertained to investigating the influence of FDI inflows, TO and ED on the economic growth of OE.

Enormous literatures discuss the issue of economic growth; less attention is devoted to analyse the economic pattern within the context of OE. The study also explores other important variables that were set together with FDI and ED in each model. Relying on various economic thoughts and models, this thesis builds the theoretical frameworks in a way that enables the researchers to testify the robustness of these theories using historical data and different economic regime. Our outlook perceives that a hypothetical world might not necessarily be similar to the reality. With that in mind, this study aims to shed lights on several facts that played a vital role in determining the economic performance of Ottoman economy during a critical era.

6.2 Summary of Main Findings and Contribution of Study

The key contribution of this research is to uncover some plausible explanations for the Ottoman Empire economic growth and its association with the FDI, TO and ED. However, before the study reached or focused on this main issue a substantial focus is given to finding out the determinants of FDI and ED through the first and second objectives. As addressed in the first chapter, FDI inflows is a key competent of capital accumulation and it is empirically found to have a significant role in the realisation of economic sustainability. This study has chosen to select certain macroeconomic determinants that are considerably based on absorptive capacity features such as trade openness, economic growth rates, and external debt and others. The third objective is solely pertained to probe on the impact of FDI, TO and ED on the economic growth of OE. More importantly, the discussion on economic growth and its linkage with other driving factors such as FDI, ED and TO, becomes an interesting topic for those who want to figure out a successful economic development.

With that in mind and in terms of the findings of this particular study, the first objective which analyses the FDI inflow determinants in OE. The results are confined to the period of 1881 until 1913 and the outputs of the statistical tests exhibit interesting arguments. Precisely, the variables that negatively attract the FDI inflows are trade openness, external debt, labour and government expenditures. For the impact of labour, (LAB) shows a sign of significant and negative at 1% significant level in which a 1% increase in LAB decreased the LNFDI by 8.64%. This means that the existing labour cost in OE was not attractive enough for the FDI inflows. The trade openness (LNTO) coefficients showed a significant and negative relationship between LNTO and LNFDI.

This result highlights the argument that trade liberalization practice in OE was not in favour of attracting FDI. External debt LNED, the coefficient appeared in this model can be interpreted as 1% increase in LNED created a decrease in the LNFDI by 9.28%. This results matches with the previous empirical studies that show statistically significant with negative sign. Having said that, the external debts is empirically proved to curb the inflow of FDI in OE. This indicates that the tendency of foreign investors in directing their investment towards OE was a risky decision as the state was experiencing a serious debt circle. Lastly, the negative and significant impact of government expenditure (LNGE) on LNFDI was present at 9.53%. This shows that government spending was not directed into bringing in FDI projects and instead it was shifted into other sectors such as the repayment of foreign loans or other corruptive channels.

Continuing with the first objective, the results show a non-significant relationship between economic growth rates and total foreign direct investment inflows. With a coefficient at 0.3398, the association between the two variable seems to be weak and this comes in line with a number of prior studies that provide evidences on such linkage. The only variable that presents a significant and positive relationship was inflation (CPI). Overall, the revealed result reconfirm the said notion that FDI was a tool that used by European powers to weaken the Ottoman economy and it did not bring about an economic change that upgraded the livelihood of the people. These finding present empirical evidences on the negativity of FDI and its determinants in the OE.

The second issue that was highlighted in this thesis is the determinants of external debt (ED) in OE. Given the fact that ED contributes to the capital accumulation, our ARDL estimation reveals a remarkable outcomes. In this model, ED functions as dependent variable and five independent variables namely: foreign direct investment, economic growth, government expenditure, trade openness and interest service. To

begin with foreign direct investment (LNFDI) which indicates a negative sign with a P-value (0.4087) which means that the association between the LNFDI and LNED does not exist. GDP per capita (LNGDP) revealed a significant negative sign whereby a 1% increase in GDP per capita led to a decrease in the external debt (LNED) by 1.5206%.

The impact of government expenditure (LNGE) on external debt (LNED) presents a positive and significant sign. In details, a 1% increase LNGE will increase the external debts with 0.5367%. Moreover, the coefficient of the trade openness's (LNTO) influence on external debt show a significant and positive sign. Based on this result higher openness to trade (TO) at 1% has improved the external borrowing by 0.2382%. This implies that a high dependence on exporting the primary goods and commodities will more likely to augment the demand on external borrowing. Lastly, this study tested the impact of interest service (LNIS) on the external debts (LNED). Table 5.13 presents the outcome of this linkage whereby a significant and negative sign was detected. A 1% increase in LNIS reduced the LNED coefficient to 0.7751%. This means that the higher payment of interest rate the lesser level of applying for external loans.

For short run elasticity, estimates showed that LNFDI was not significant whereas the LNGDP depicts a significant and negative sign, which is matching with the long run elasticities. In terms of LNGE, the result here indicates a positive and significant linkage with LNED. Unlike LNTO, which shows a non-significant relation with LNED, the LNIS presents a strong negative and significant sign. Overall, all the variables interact in a similar manner in the short run as the long run with the exception of one variable which is LNTO. Practically speaking, the parameters we used in this particular model demonstrate that high external debt level tends to reduce the governments' incentive in moving forward with the economic progress.

The last objective scrutinises the core of this dissertation, which highlights the impact of FDI inflow, TO and ED on economic growth. More importantly, the topic of economic growth still receives a tremendous discussion among academicians and policy makers. The ARDL estimation in this research focuses on the impact of FDI, trade openness, government expenditure, external debt and inflation on economic growth in Ottoman Empire between 1881 - 1913. Based on the model of economic growth, the LNED, LNTO and LNGE have a positive and significant (at 1% and 5% significance level) influence on the growth of Ottoman economy. The remaining variables which are, LNFDI and LNCPI demonstrated a negative and significant impact on the growth of Ottoman economy. For FDI, coefficient depicts -0.0063, which means that the 1% increase in LNFDI reduced the economic growth by 0.0063%.

This result provides support for the prevalence of a foreign direct investment effect having a direct negative impact on growth. It is also found that an increase in LNED by 1% could increase the Ottoman economy growth by 0.05%. Although the result shows a positive sign, but the consequences of excessive demand of external loans are harmful to the economy. The rise of openness to trade (LNTO) has also led to a higher economic growth in OE. The magnitude of 0.3163. The foreign trade had expanded more than tenfold with 13% of the Ottoman products allocated for exportation. With that in mind, it is seems that the trade openness has a positive long-run relationship with economic growth and this is an interesting result that provide a different insights on the performance of Ottoman economy during a critical period.

In the case of government expenditure (LNGE), the result revealed a positive and significant sign in which 1% increase in LNGE could increase the LNGDP by 0.25%. The positive correlation between government expenditure and economic growth is recognized in the Wagner's Law, which assumes role of the government increases

because of economic growth. Lastly, the inflation (LNCPI) presents a significant and negative relationship with economic growth. In a broader view, the economic growth model provides an interesting finding as all the variables posit a significant relationship with economic growth. The result of this model is also supported by the prior studies. It is important to mention here that the used data in this study is related to the last two centuries and despite that, the findings of this study manage to provide results that match with the most recent studies

This study yields a distinct contribution to the existing literatures in several way. First, it contributes to the economic history in general and ottoman economic history in particular. The idea to examine the Ottoman economy during the 19th century is still in its early stages and putting more emphasis on this topic would certainly help to generate motivation to establish a strong platform for the researchers. Second, this study provides empirical evidences on FDI and TO using a secondary data that was issued by Turkish statistical centre. Indeed, the current study employed a neo-classical, dependency and modernization hypotheses for FDI and debt overhang theories to explain the determinants of both FDI and ED.

Second, the usage of growth model is also a distinct contribution and to the best of author knowledge, no empirical study has been carried out to estimate the FDI, ED and TO on the economic growth in OE during 1881 until 1913. Third, the study provide a comprehensive analysis of the Ottoman economy using various macroeconomic variables. Although the prior research attempted to work on such method but it seems that very few who manage to provide empirical evidences that support the qualitative research. In this aspect, this study initiates the examination of FDI inflow and external debt determinants, which significantly helps to promote the academic research in this

field. Lastly, this research employs the ARDL test in reporting the result. The usage of this test is unique in terms of its application in Ottoman economic studies.

6.3 Policy Recommendations

Since this study focuses on historical pattern, which is the Ottoman Empire, it is therefore obvious that the recommendations would be addressed to the countries that share similar characteristics such as the third world nations. In this respect, the outcome of our empirical investigation suggest that FDI inflow is positively correlated with economic growth and thus, provide a strong conviction that FDI is a vital component toward creating a long term economic growth. This highlights the fact that the countries need to promote and incentivise the foreign investment by creating an attractive environment. It is evident that through reforms in fiscal and monetary policies, the policy maker would be able to get feedbacks that are more positive from investors. Indeed, the foreign investors tend to be careful in selecting the host country, as their main key point in this matter is the tax heaven. Ottoman Empire attempted to work on this particular aspect via tax exemptions and capitulation.

However, these economic measures were not so effective and instead it created an ample opportunity for European powers to dominate and weaken the local market using the tax privilege. Thus, it is considerably important that the fiscal policies must be designed in a way that preserve the economic sovereignty and protect the local industrial sector. Equally important is the notion of political stability. This concept has received a growing attention in international business and economics literature. The prior studies reveal that the political instability might negatively affect the flow of FDI due the uncertainty and risk bounded the investments' returns. In other words, the economic fragility ties with, structural economic imbalances, unequal growth, excessive

resource dependence and high levels of youth unemployment. For the emerging markets and developing economies, there is a need to establish and adopt an economic framework that enables the MNC to invest. Economic regulations should be in accordance with the international laws and support more investment, as this will be generating higher economic growth.

Trade openness or liberalization is also proven to be a significant indicator in determining the economic growth in OE. Interestingly, the trade openness was essential to the Ottoman economy to integrate into the international economy and expand the trade network beyond the Ottoman border. Such fact was obvious to the Ottoman authority as they lifted the customs on the European products. Ironically, the tax on local products was not in favour of encouraging the Ottoman merchants to export their goods as they experienced a severe competition with European. This brings the idea that the government should put in place economic measures that protect the local production and this can be done through applying a discounted tax rate or providing stimulus packages. Besides that, it is essential that the government should practice a liberal trade policy. This to ensure that competitiveness is there and to encourage the local producers to look for a better approach in manufacturing goods. One of the strategies is by promoting the transfer of technology and ease restrictions to FDI, thereby increasing accessibility to international markets.

Obviously, our empirical results confirm that seeking the capital's accumulation via the external debt policy was a damaging method to the Ottoman state. Losing sovereignty was one of numerous negative consequences. This was a clear example on the reliance on financing budget deficit using foreign loans. For the emerging economies, there should a certain restriction on getting loans. For instance, the countries should channels those obtained loans into sectors of the economy and projects with

significant short and long run net positive returns. More importantly, the government and financial institutions should work together to achieve the sustainability of growth. This can be achieved via implementing a set of measures that safeguard these instructions' liquidity. Further, the monetary policies should also be revised from time to time to make sure that the central banks are updated with the development in the markets. An example of this is the emergence of cryptocurrency that revolutionised the online transactions and the interest level of such currency is increasing.

6.4 Limitations of the Study and Recommendation of Future Research

As far as limitations, the primary caveat to this research is the timeframe of the period. Using a data from 1881 until 1913 seems to be short period and thus, it would be better if the future research expands the length. This would certainly make the study more authentic and reliable. Bearing in mind that the Turkish statistical centre is working on a huge project to digitalise the Ottoman economic data which will be an added value to the incoming research. This study covers the period prior the First World War which is a controversial era since many political events occurred during this period. Thus, it is advisable to examine the period post World War I.

From the perspective of methodology, this study employs ARDL to estimate the correlations. Hence, the future research might opt to choose different approach that suit the nature of the data. For example, Vector Error Correction Model (VECM) is suggested and with outcomes of this method, we will be able to compare and contrast both methods. Further, a number of variables are out there to be included in the future research such as tax rate, budget deficit, financial institutions. This might require a deep investigation into the Ottoman archive, which is also not an easy task as all the documentation are in Turkish language.

Additionally, future studies could implement panel data estimation as more degree of freedom and more sample variability than cross-sectional data. Besides, panel data contain information on both the intertemporal dynamics and the individuality of the entities that may allow one to control the effects of missing or unobserved variables. Also, from the Islamic perspective, it would be fruitful to the Ottoman research to have some studies that scrutinise the role of Islamic scholars “Ulama” during that period where the state has engaged in some un-Islamic decisions such as the interest derived from external loans.