

**THE EFFECTS OF FOREIGN DIRECT INVESTMENT,  
EXTERNAL DEBTS AND TRADE OPENNESS ON  
ECONOMIC GROWTH: EVIDENCES FROM  
OTTOMAN EMPIRE 1881 – 1913**

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## AUTHOR DECLARATION

I hereby declare that the work in this thesis is my own except for quotations and summaries which have been duly acknowledged.

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## ABSTRAK

Abad ke-19 menandakan perubahan besar terhadap ekonomi Uthmaniyyah dalam banyak cara. Jumlah yang besar itu dipindahkan dari Eropah ke Empayar Uthmaniyyah dalam bentuk pinjaman luaran atau pelaburan asing. Lebih penting lagi, sejumlah besar diberikan sebagai hasil dari proses pembaharuan dan pemodenan yang sedang dijalankan yang dilakukan oleh Empayar Uthmaniyyah untuk menubuhkan tentera gaya barat. Oleh itu, aliran dana membantu kuasa Eropah untuk mendapatkan hak komersial atau konsesi untuk melaksanakan projek pelaburan yang signifikan. Lebih penting lagi, pertukaran barang memihak kepada barang import berbanding dengan eksport, dan ini terutama bergantung pada fakta bahawa produk Eropah ini menikmati pengecualian dari cukai. Tiga isu utama dibahas dalam tesis ini. Pertama, penentu potensi makroekonomi untuk pelaburan langsung asing di Empayar Uthmaniyyah. Perkara kedua adalah hutang luar negara yang sangat berkaitan dengan kawalan kewangan kuasa Eropah yang cuba campur tangan dalam urusan domestik. Isu utama ketiga adalah berkaitan dengan penyelidikan pengaruh pelaburan langsung asing, hutang luar negara, dan keterbukaan perdagangan terhadap pertumbuhan ekonomi Empayar Uthmaniyyah. Literatur yang ada mempunyai jurang terhadap analisis kuantitatif yang komprehensif mengenai corak ini. Oleh itu, tumpuan besar diberikan kepada sejarah Empayar Uthmaniyyah, tetapi perhatian minimum diberikan kepada prestasi kewangan ekonomi Uthmaniyyah pada suku terakhir abad ke-19. Oleh itu, kisah di belakang tabir tetap kabur, dan penjelasan hanya terletak pada buku sejarah, dan meninggalkan kekosongan dari segi analisis ekonometrik. Oleh itu, kajian ini adalah tindak balas terhadap kekurangan dalam bidang ini. Kajian ini menggunakan teknik siri masa "Autoregressive Distributed Lag Model" (ARDL) pada data makroekonomi untuk period 1881-1914. Kajian ini mendedahkan kesan positif yang signifikan dari hutang luar negara, keterbukaan perdagangan, dan perbelanjaan pemerintah terhadap pertumbuhan ekonomi. Hasil yang diperoleh juga menunjukkan fakta bahawa pelaburan langsung asing dan inflasi menunjukkan kesan negatif yang signifikan terhadap pertumbuhan ekonomi. Penemuan kami mengesyorkan untuk memusatkan perhatian pada penggunaan dasar ekonomi yang mempromosikan menjana dana menggunakan sumber tempatan dan bukannya bergantung pada dana luar untuk meningkatkan pembangunan ekonomi.

## ABSTRACT

The 19th century marked tremendous changes to the Ottoman economy in many ways. The substantial amount was transferred from Europe to the Ottoman Empire in the form of an external loan or foreign investment. More important, substantial amounts were given as a result of the ongoing process of reforms and modernization that the Ottoman Empire engaged attempting to establish a western-style army. Hence, the flow of funds helped the European power to obtain commercial privileges or concessions to undertake a significant investment project. More importantly, the exchange of goods was in favour of imported ones relative to exports, and this was residing mainly on the fact that these European products enjoyed the exemption from taxes. Three main issues are addressed in this thesis. Firstly, the potential macroeconomic determinants for FDI in OE. 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. The third key issue is pertained to investigating the influence of foreign direct investment, external debts, and trade openness on the economic growth of Ottoman Empire. The existing literature lacks a comprehensive quantitative analysis of this pattern. Indeed, a great focus was given to the Ottoman Empire history, but minimal attention was directed to the financial performance of the Ottoman economy during the last quarter of the 19th century. Thus, the tales behind the scene remained blur, and the most plausible explanation lies in the book of history, and leaves a vacuum in term of econometric analysis. Therefore, this study is a response to such a shortage in this field. This study utilizes the time-series technique “Autoregressive Distributed Lag Model” (ARDL) on macroeconomic data for the period 1881-1914. The study reveals a significant positive effect of external debt, trade openness, and government expenditure on economic growth. The obtained results also highlight the fact that foreign direct investment and inflation showed a significant negative impact on economic growth. Our findings recommend on focusing on adopting economic policies that promote generating funds using local sources instead of relying on external funders to boost economic development.



استمرت الوضعية المالية للدولة العثمانية في التدهور بشكل سريع خلال القرن التاسع عشر مما جعلها تقرر في نهاية المطاف الدخول في مفاوضات تجعل من الدائنين يحجرون على ممتلكات الدولة و مقدراتها من المداخيل و المصروفات و عينوا لذلك هيئة تنفيذية سنة 1881 سمية بـ "هيئة الديون العمومية" مهمتها تحصيل الضرائب و تسييرها اداريا. و قد كان لهذه الهيئة الدور الاساس في تسريع ائحيار الدولة العثمانية من خلال التدخلات الجمة التي كانت تقوم بها من أجل منع الدولة التصرف بممتلكاتها من الاموال و قد كان لها الامر الاثر الاكبر في حصر صلاحيات الخليفة و جعله مكبل اليدين. ان محاولة اربوا لدمج الاقتصاد العثماني من خلال سياسات القروض و الاستثمارات الاجنبية المباشرة جعلت الدولة تمر بازمة اقتصادية جعلتها تقع في ازمة اقتصادية و ائحيار للنمو بشكل متسارع. بناء على ذلك فإن هذه الدراسة تهدف الى محاولة سبر أغوار الازمة الاقتصادية التي مرت بها الدولة العثمانية خلال الفترة الممتدة من 1881 الى 1913 من خلال دراسة مدى ارتباط نسبة الديون الخارجية و الاستثمارات الاجنبية و التجارة بعلاقتها بالنمو الاقتصادي للدولة العثمانية. اعتمدت الدراسة على الاحصائيات الاقتصادية التي قام المركز التركي للاحصاء بنشرها و المتعلقة بالعقد الاخير من القرن التاسع عشر. و من اجل تحليل المعطيات و تفسير الظواهر الاقتصادية فقد استخدم الباحث النموذج الاقتصادي Autoregressive Distributed LAG (ARDL) و الذي يعتبر من اهم النماذج التي يتم استخدامها في الدراسات ذات السلاسل الزمنية. تعتبر نتائج البحث مهمة من زاوية انها اثبتت بشكل واضح ارتباط الديون و الاستثمارات الاجنبية في اضعاف الاقتصاد العثماني و كشفت ان الدخل الخام للدولة تأثر بشكل كبير نتيجة الاعتماد على الديون التي جعلتها غير قادرة على خلق اقتصاد مستقل. ايضا كشفت الدراسة ان الانفاق الحكومي له اثر سلبي على الدخل الخام مما ساهم في زيادة الطلب على الدين الخارجي من الدول الاوروبية التي استغلت حاجة الدولة الى المال و عملت على فرض شروط قاسية زادت من متاعب الدولة.

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## LIST OF ABBREVIATIONS

ADF	augmented Dickey-Fuller
AIC	Akaike information criterion
ARDL	autoregressive distributed lag
CPI	consumer price index
DI	domestic investment
ECT	error correction term
ED	external debts
FDI	foreign direct investment
GDP	gross domestic product
GDPR	GDP growth rates
GE	government expenditure
GMM	generalized method of moments
HC	human capital
IOB	imperial Ottoman bank
IS	interest service
KPSS	Kwiatkowski-Phillips-Schmidt-Shin
LAB	labour force
MNC	multinational companies
MNEs	multinational entities
MENA	Middle East and North Africa countries
MPD	Maddison project database
OE	Ottoman empire
OECD	organizations for economic co-operation and development
OLI	ownership-localization-internalization
OLS	ordinary least square
OPDA	Ottoman public debt administration
PP	Phillips-Perron
2SLS	two-stage least squares
TO	trade openness
ToT	terms of trade
UECM	unrestricted error correction model
US	United States
VAR	vector autoregression
VECM	vector error correction model
WW1	World War 1