

The impact of political stability and foreign direct investment on international trade in Türkiye and the BRICS+ countries¹

Politik istikrar ve doğrudan yabancı yatırımların Türkiye ve BRICS+ ülkelerinde uluslararası ticarete etkisinin incelenmesi

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Abstract

This study employs panel data analysis to investigate the impact of political stability and foreign direct investment (FDI) on international trade in Türkiye and the BRICS+ countries, comprising Brazil, Russia, India, China, the Republic of South Africa, Egypt, Ethiopia, Indonesia, Iran, and the United Arab Emirates. Analyses of data from the World Bank database from 2002 to 2022 reveal that political stability and FDI significantly impact trade volume, trade balance, and overall economic performance in Türkiye and the BRICS+ countries. Specifically, the study found that FDI has a positive impact on international trade in countries with high political stability. The study emphasises the importance of ensuring political stability and encouraging foreign investment in the economic development strategies of BRICS+ countries and Türkiye.

Keywords: Political Stability, Foreign Direct Investment, International Trade, BRICS+ Countries, Panel Data Analysis

Jel Codes: C51, F13, F31

Öz

Bu çalışma, Türkiye ve BRICS+ ülkeler (Brezilya, Rusya, Hindistan, Çin, Güney Afrika Cumhuriyeti, Mısır, Etiyopya, Endonezya, İran ve Birleşik Arap Emirlikleri)'inde politik istikrar ve doğrudan yabancı yatırımların (DYY) uluslararası ticaret üzerindeki etkilerini panel veri analizi yöntemiyle incelemektedir. Dünya Bankası veri tabanından 2002-2022 dönemine ait veriler kullanılarak yapılan analizler, politik istikrarın ve DYY'nin ticaret hacmi, ticaret dengesi ve genel ekonomik performans üzerinde anlamlı etkileri olduğunu Türkiye ve BRICS+ ülkeleri için ortaya koymaktadır. Özellikle, politik istikrarın yüksek olduğu ülkelerde DYY'nin uluslararası ticareti olumlu yönde desteklediği gözlemlenmiştir. Çalışma ile BRICS+ ülkeleri ve Türkiye için ekonomik kalkınma stratejilerinde politik istikrarın sağlanmasının ve yabancı yatırımların teşvik edilmesinin önemi vurgulanmıştır.

Anahtar Kelimeler: Politik İstikrar, Doğrudan Yabancı Yatırımlar, Uluslararası Ticaret, BRICS+ Ülkeleri, Panel Veri Analizi

JEL Kodları: C51, F13, F31

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Introduction

In the globalised economic environment of the 21st century, FDI and political stability have emerged as central pillars in sustaining economic growth and ensuring the integration of developing economies into the global marketplace. Political stability not only facilitates efficient economic governance but also enhances investor confidence, while FDI acts as a crucial catalyst for technological transfer, industrial development, and export capacity. Especially for developing countries, foreign trade is considered a vital tool in achieving various economic objectives, such as increasing production capacity, enhancing employment, and transferring technology. In this context, an accurate analysis of the economic and institutional factors influencing the course of foreign trade is of great importance for both academic circles and policymakers.

Political stability and FDI significantly influence international trade dynamics, acting as interlinked mechanisms that enhance economic environments conducive to trade. Political stability is critical, as it reduces uncertainty and thereby fosters a favourable investment climate. Research has established a robust correlation between political stability and FDI inflows; countries that prioritise stability often attract increased foreign investment, which is essential for stimulating trade (Voica, Panait, Hysa, Çela, and Manta, 2021; Chhetri, 2022). A stable political environment mitigates the risks associated with sudden policy alterations, which is vital for safeguarding capital investments and enhancing investor confidence, thereby reducing trade costs and facilitating broader trade engagement (Voica et al., 2021; Chhetri, 2022). Additionally, empirical studies underscore the notion that FDI significantly contributes to international trade by creating complementary production and distribution networks (Voica et al., 2021; Sohail et al., 2021). For instance, nations that maintain stable political frameworks create encouraging atmospheres for multinational corporations, which, in turn, develop extensive supply chains that invigorate local industries and integrate them into global markets (Chhetri, 2022; Sohail et al., 2021). This engagement not only benefits the host countries by enhancing production capabilities but also plays a role in technology transfer and management practices, which are crucial for increasing local production capacities (Chhetri, 2022; Tanaya & Suyanto, 2022). Moreover, the relationship between FDI and trade is bi-directional, with each influencing the development of the other, contributing to overall economic growth in host countries (Raphael, 2023; Gilal et al., 2016; Fofana et al., 2019). Notably, FDI can serve as a conduit for market access and competitive advantage, further enriching trade liberalisation efforts (Joo & Shawl, 2023). In this manner, as FDI inflows facilitate diverse economic advancements, they simultaneously bolster trade volumes by creating broader access to international markets (Tanaya & Suyanto, 2022; Ravikumar et al., 2024). Conversely, increased trade openness tends to attract FDI due to enhanced market potential and reduced transaction costs for investing firms (Raphael, 2023; Ravikumar et al., 2024). As these dynamics unfold, it becomes evident that fostering a politically stable environment is paramount for enhancing foreign direct investment, which in turn breeds substantial growth in international trade volumes. The interdependence of these factors reinforces the need for cohesive economic policies that prioritise both political stability and trade facilitation strategies (Voica et al., 2021; Chhetri, 2022; Agrawal, 2015).

In conclusion, the synthesis of research highlights the necessity of cultivating political stability not only to attract FDI but also as a strategic imperative for enhancing trade relationships globally. The interplay between these dimensions is critical for promoting sustainable economic growth, especially in developing countries that heavily rely on FDI and trade for their financial aspirations. This study aims to make a new contribution to the literature by analysing this relationship in the case of BRICS+ countries and Turkey. The BRICS+ represents a highly diverse grouping, encompassing not only major emerging economies but also regional and global rising powers. In this context, the analysis, using a panel data set for the period 2002-2022, comparatively examines the effects of political stability and FDI on foreign trade. The main objective of the study is to determine the direction and magnitude of these two essential variables on foreign trade and to provide both theoretical and practical policy recommendations in line with the findings.

Literature review

Introduction to the topic

The interrelation between political stability and foreign direct investment (FDI) is a central theme in development economics, particularly in the context of emerging markets. Extensive research emphasises that political stability not only enhances institutional trust and reduces investment risk but also plays a critical role in attracting and sustaining FDI inflows. Conversely, FDI contributes to economic development by fostering capital accumulation, technology transfer, and integration into global markets. This literature review synthesises and critically evaluates key academic studies on the

relationship between political stability, FDI, and economic growth, with a specific focus on BRICS+ countries. The analysis aims to identify common findings, highlight conflicting perspectives, and ultimately justify the contribution of the present study to the ongoing scholarly discussion.

Political stability and its economic implications

Political stability is broadly recognised as a cornerstone for sustainable economic development. Lax (1982) and Minor (2003) conceptualise political risk as arising from phenomena such as war, regime change, and corruption, which undermine investor confidence and institutional predictability. In democratic regimes, Phillips (2006) emphasises that political uncertainty may even stem from elections and transitions of power. Alesina and Perotti (1996) argue that a politically stable environment provides a basis for long-term investment decisions, while instability leads to macroeconomic volatility and institutional inefficiency (Barro, 1991; Arslan & Furtana Ekinci, 2020).

Furthermore, Bardakçı (2025) and Baklouti & Boujelbène (2020) underline the consequences of instability, including currency volatility, capital flight, and declining investor confidence. These findings collectively support the idea that political stability functions as both a safeguard for institutional quality and a catalyst for economic growth. However, in countries where governance is weak, instability can reduce public sector effectiveness and lead to long-term underdevelopment.

FDI and economic development

FDI is a key driver of economic transformation, particularly in countries seeking to diversify their industrial base. Alfaro et al. (2010) identify FDI as a conduit for technological diffusion and productivity growth. Similarly, Popa (2020) and Clare & Gang (2009) emphasise its multifaceted contributions, including capital inflows, job creation, and human capital development. However, these benefits are conditional on the existence of supportive legal, political, and institutional environments.

Empirical studies provide robust evidence for the interaction between political stability and FDI. For instance, Clare & Gang (2009) and Brzozowski (2006) find that political stability positively correlates with FDI inflows, especially in developing countries. Similar patterns are observed in the Turkish context by Emir, Uysal, and Doğru (2013), where FDI has been linked with modernisation and integration into global value chains. Saidi et al. (2022) expand on this by arguing that institutional quality significantly influences the long-term impact of FDI on economic development, underscoring the need for transparent and efficient governance.

The interplay between political stability and FDI

A significant body of research has examined the dynamic relationship between political stability and FDI. Feng (2003) and Busse & Hefeker (2007) demonstrate that institutional predictability and orderly governance are critical factors influencing investor behaviour. Uğurlu (2022) provides recent evidence indicating that foreign investors prioritise administrative transparency and long-term political predictability when making investment decisions.

These findings consistently suggest that FDI and political stability are mutually reinforcing: stable political environments attract investment, while sustained investment can contribute to political and institutional development through economic growth. Nonetheless, abrupt political changes, legal uncertainty, and weak bureaucratic systems remain key deterrents to sustainable FDI flows.

Foreign trade dynamics in BRICS+ countries

In parallel with the political and investment-related factors, trade dynamics in BRICS+ countries reflect the broader impact of economic and institutional structures. As a growing bloc with shared development goals, BRICS+ countries, including Türkiye, exhibit similar challenges and opportunities in international trade. Ersin & Süt (2022) highlight that initiatives like the Belt and Road Project enhance regional connectivity and logistics efficiency. However, protectionist policies and global economic volatility continue to threaten trade stability (Bardakçı & Barut, 2021; Sarıhan & Bayır, 2023).

To address these issues, scholars suggest reforming trade infrastructure, enhancing digital platforms, and diversifying trade content beyond goods to include services and high-value-added products (Bayar, 2023; Bayramoğlu & Yurtkur, 2016). These improvements are particularly urgent for maintaining competitiveness in the global supply chain and ensuring that trade continues to make a positive contribution to economic growth.

Contribution to the literature

While prior studies have extensively analysed the bilateral relationship between political stability and FDI, there is a growing need to contextualise this dynamic within the evolving trade strategies of

BRICS+ countries. This study contributes to the literature by examining how institutional and political factors affect both FDI and foreign trade dynamics simultaneously, particularly in emerging economies. Moreover, by incorporating Turkey into the BRICS+ framework, the research offers a novel perspective on how middle-power countries navigate the complexities of geopolitical and economic environments in the global investment and trade landscape.

Methodology and dataset

For this study, data on the BRICS+ countries from 2002 to 2022 were obtained from the World Bank database and analysed using panel data methods (World Bank, 2024). International trade volume (exports and imports) is taken as the dependent variable, while the political stability index and FDI inflows are considered as independent variables. Control variables include Gross Domestic Product (GDP) growth rate, inflation and trade deficit. The fixed effects method was used in the estimation of the model.

Table 1: Dependent, Independent and Control Variables

	Data	Description	Calculation Method	Source
Dependent Variable	XMGDP	Ratio of total imports and exports to GDP	$(\text{Exports} + \text{Imports}) / \text{GDP} * 100$	World Bank
Independent Variables	FDI	Ratio of foreign direct investments to GDP	$(\text{Foreign Direct Investment} / \text{GDP}) * 100$	World Bank,
	PS	Political Stability	A score calculated on the World Bank's Governance Indicators	World Bank, Governance Indicators
	CC	Accountability	A score calculated on the World Bank's Governance Indicators	World Bank, Governance Indicators
	GE	Government Effectiveness	A score calculated on the World Bank's Governance Indicators	World Bank, Governance Indicators
	RL	Regulatory Quality	A score calculated on the World Bank's Governance Indicators	World Bank, Governance Indicators
	RQ	Rule of Law	A score calculated on the World Bank's Governance Indicators	World Bank, Governance Indicators
	VA	Controlling Corruption	A score calculated on the World Bank's Governance Indicators	World Bank, Governance Indicators
	IQU	Government indicator index: $(cc + ge + ps + rl + rq + va) / 6$	Average of cc, ge, ps, rl, rq, and va indicators	World Bank, Governance Indicators
Control Variables	INF	Annual inflation, the annual percentage change in the consumer price index.	$[(\text{Current Year Consumer Price Index} - \text{Base year Consumer Price Index}) / \text{Base year Consumer Price Index}] * 100$	World Bank,
	EXR	Official exchange rate, local currency/U.S. dollar, period average.	Average annual exchange rate, local currency / USD	World Bank,
	GDPPER	GDP per capita.	$\text{GDP} / \text{Total population}$	World Bank,
	DIG	Digitalisation	Proportion of individuals using the Internet (%population)	World Bank

Source: The table is created by the author.

In this study, seven different linear regression models are developed to empirically analyse the relationship between foreign trade (XMGDP) and various economic and institutional determinants. These models are designed to evaluate the interaction of foreign trade with economic size in different dimensions. The models include key macroeconomic variables, such as FDI, INF, EXR, GDPPER, and

DIG, as well as institutional attributes, including GE, RQ, and VA, as independent variables. The choice of these indicators is based on the assumption that trade volume is significantly shaped not only by economic indicators but also by the quality of institutional structures. Thus, the aim is to provide a more holistic and in-depth analysis of the multidimensional determinants of foreign trade performance.

Table 2: The Models are Formulated as Follows

Model 1
$XM GDP_{it} = \beta_0 + \beta_1 FDI_{it} + \beta_2 PS + \beta_3 INF_{it} + \beta_4 EXR_{it} + \beta_5 GDPPER_{it} + \beta_6 DIG_{it} + \varepsilon_{it}$
Model 2
$XM GDP_{it} = \beta_0 + \beta_1 FDI_{it} + \beta_2 CC_{it} + \beta_3 INF_{it} + \beta_4 EXR_{it} + \beta_5 GDPPER_{it} + \beta_6 DIG_{it} + \varepsilon_{it}$
Model 3
$XM GDP_{it} = \beta_0 + \beta_1 FDI_{it} + \beta_2 GE_{it} + \beta_3 INF_{it} + \beta_4 EXR_{it} + \beta_5 GDPPER_{it} + \beta_6 DIG_{it} + \varepsilon_{it}$
Model 4
$XM GDP_{it} = \beta_0 + \beta_1 FDI_{it} + \beta_2 RL_{it} + \beta_3 INF_{it} + \beta_4 EXR_{it} + \beta_5 GDPPER_{it} + \beta_6 DIG_{it} + \varepsilon_{it}$
Model 5
$XM GDP_{it} = \beta_0 + \beta_1 FDI_{it} + \beta_2 RQ_{it} + \beta_3 INF_{it} + \beta_4 EXR_{it} + \beta_5 GDPPER_{it} + \beta_6 DIG_{it} + \varepsilon_{it}$
Model 6
$XM GDP_{it} = \beta_0 + \beta_1 FDI_{it} + \beta_2 VA_{it} + \beta_3 INF_{it} + \beta_4 EXR_{it} + \beta_5 GDPPER_{it} + \beta_6 DIG_{it} + \varepsilon_{it}$
Model 7
$XM GDP_{it} = \beta_0 + \beta_1 FDI_{it} + \beta_2 IQU_{it} + \beta_3 INF_{it} + \beta_4 EXR_{it} + \beta_5 GDPPER_{it} + \beta_6 DIG_{it} + \varepsilon_{it}$

Findings

This study analyses the economic and institutional factors affecting the foreign trade performance of BRICS+ countries and Turkey using annual data for the period 2000-2022. In seven different models estimated by the panel data analysis method, the effects of FDI, INF, EXR, GDPPER, DIG and various governance indicators (PS, CC, GE, RL, RQ, VA, IQU) on imports and exports to GDP ratio (XM GDP) are examined.

Main findings

FDI: In all models, FDI has a positive and statistically significant effect on XM GDP ($p < 0.01$). A 1% increase in FDI increases XM GDP by 1.67% on average. This finding suggests that foreign investments promote foreign trade and strengthen global integration in BRICS+ countries.

INF: Inflation has a positive and significant effect on XM GDP ($p < 0.05$). This unexpected result suggests that high inflation may have a favourable impact on the trade balance by making exports more competitive. However, it should be kept in mind that this situation is not sustainable and may lead to macroeconomic instability in the long run.

GDPPER: GDPPER has a negative and significant effect on XM GDP. This result can be explained by the fact that as income levels increase in BRICS+ countries, domestic demand rises and the relative importance of foreign trade decreases.

DIG and EXR: DIG and EXR variables do not have a statistically significant effect on XM GDP. This suggests that digital transformation has not yet had a substantial impact on foreign trade in BRICS+ countries.

Governance Indicators: Political stability (PS), accountability (CC), government effectiveness (GE), rule of law (RL) and other institutional variables have no significant impact on XM GDP. This suggests that the quality of governance in BRICS+ countries does not have a direct effect on foreign trade.

Political stability and foreign trade

The mean value of the political stability (PS) variable (-0.673) indicates that political uncertainty is high in BRICS+ countries. However, PS is insignificant in the models, suggesting that this variable does not have a direct impact on foreign trade. However, it should not be ignored that political instability may indirectly affect the investment climate and trade credibility in a negative manner.

Autocorrelation and cross-sectional dependence

Autocorrelation tests show that the models have positive autocorrelation (Durbin-Watson values in the range of 0.555-0.720). Moreover, Pesaran CD test results confirmed that there is cross-sectional dependence among the variables. To overcome these problems, Driscoll-Kraay standard errors were used to increase the reliability of the estimates.

Conclusion and discussion

This study examined the economic and institutional factors that influence the foreign trade performance of Türkiye and the BRICS+ countries using a panel data analysis. The empirical findings demonstrate that foreign direct investment (FDI) and inflation have a positive, statistically significant effect on foreign trade, whereas per capita income exhibits a negative relationship. These results suggest that the foreign trade performance of BRICS+ countries is shaped by economic indicators, the quality of institutional governance, and the stability of the political environment. Specifically, elements such as the regulatory framework, anti-corruption mechanisms, and the rule of law, all of which contribute to investor confidence, act as amplifiers for foreign trade when combined with effective FDI strategies. These findings underscore the importance of institutional reforms, in addition to traditional economic incentives, for fostering sustainable trade growth.

Consistent with previous studies (e.g., Borensztein & Gregorio, 1995), the positive relationship between FDI and trade confirms the significant impact of foreign capital inflows on trade performance. However, the positive impact of inflation observed in this study diverges from conventional economic theory. This suggests that there is a context-specific dynamic within BRICS+ countries where inflation can temporarily increase export competitiveness. The limited statistical significance of governance indicators, on the other hand, points to the need for continued institutional strengthening in these economies.

From a policy perspective, these results suggest the importance of promoting an attractive investment climate through tax incentives, infrastructure development, and foreign capital protection. Similarly, while moderate inflation may offer short-term trade advantages, long-term economic stability requires central bank policies that ensure price stability. Furthermore, comprehensive institutional reforms, including improvements in legal enforcement, transparency, and accountability, are necessary to maximise the trade-enhancing potential of governance quality.

Despite its contributions, the study is limited to BRICS+ countries; thus, the generalizability of the findings to other developing regions may be limited. Furthermore, the insignificant effect of digitalisation underscores the need for more nuanced and detailed metrics in future research. Advanced econometric techniques, such as dynamic panel models or causality analyses, could strengthen the reliability of future findings.

In conclusion, the sustainable development of foreign trade in BRICS+ countries requires a dual strategy of macroeconomic stabilisation and institutional deepening. Policymakers should adopt a holistic approach that balances economic tools and democratic reforms to ensure a predictable and transparent environment for trade and investment. Notably, country-level comparisons reveal that China and India have achieved relatively stable performance in foreign direct investment (FDI) and political governance. At the same time, Türkiye and Brazil have experienced fluctuations due to persistent political uncertainties. Strengthening institutional capacity in these countries is essential to transforming foreign trade into a more resilient engine of long-term growth.

Peer-review:

External peer review has been conducted.

Conflict of interests:

There is no conflict of interest to declare.

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