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**FINANCIAL OPENNESS AND TOTAL FACTOR PRODUCTIVITY IN
TURKEY****Abstract:**

Financial openness, which can be defined as integration into international financial markets, can cause significant changes in countries' production structures and in the methods of doing business through the quantity and quality of international capital flows. The aim of this study is to analyze the effects of financial openness on total factor productivity as a long-term structural indicator in Turkey. Empirical results reveal that the effect of financial openness on total factor productivity is significant and positive together with the other determinants of total factor productivity specified as human capital, innovation, foreign direct investment, financial development, macroeconomic stability and governance indicators in our sample period. However, the relationship between financial openness and total factor productivity presents different pictures when sub periods are taken into consideration. The results of the analysis point out that structural policies addressing to total factor productivity determinants are likely to increase the long term potential growth rate, the development level and the welfare of Turkey. Therefore, efforts should be made to enhance the capability and extent of exploiting the advantages of financial openness by means of comprehensive and complementary policies at macro level.

Keywords:

Financial Openness; Total Factor Productivity; International Capital Flows; Turkish Economy.

JEL Classification: F62, O40, O11