Preface

The question regarding the respective roles of the state and the market in the development process has been debated intensively after the great depression of 1929, which showed clearly that the price was too high when the market was left to the realm of the ‘invisible hand’. Development economics was born out as a rejection of the neoclassical view that it is generally not possible to improve upon the market outcome. The predominant approach to economic policy in the 1950s and 1960s assigned the state a substantial role in repairing market failures. Development economists highlighted the greater scope of market failure in less developed compared with developed economies, thereby providing a rationale for enlarging the scope of state intervention.

Since 1960s, the world economy has passed through several phases. In the 1960s, output and trade grew at unprecedented rates. This created favorable conditions for the use of structuralist policies, which favored government intervention in the economy. But this expansion was stopped in its tracks with the oil crisis of 1973. In the aftermath of the international debt crisis of the late 1970s and early 1980s, macro-economic policy in Western countries, particularly the US under President Reagan and the UK under Prime Minister Margaret Thatcher, moved sharply towards emphasis on the use of the free market. These policies had a strong parallel in development policy, particularly as advocated by the World Bank (WB) and the International Monetary Fund (IMF) in Washington, DC, as conditions for their lending to developing countries, such that their policies came to be known as the ‘Washington Consensus’ (WC). The Washington Consensus implies complying with the dominance of ruling powers of the system both at international and intra-national levels.

Advocating moves away from the older ‘structuralist’ view of development prevalent in the 1950s and 1960s the so-called Washington Consensus views in the 1980s and 1990s regarded the market failures that industrial policy' could address as less important than the failures of the state. Policies of trade liberalization, removal of subsidies, and privatization of both production and state marketing were widely advocated. Consequently, neoliberalism, with its emphasis on market mechanism became the dominant way of thinking about development in terms of development theory and in terms of influence on policy. As Chang (2006, p. 13-14) points out, “[i]n this revival of the old doctrine of laissez-faire, the early postwar consensus that capitalism has to be ‘tamed’ in order to be saved from itself … has been overturned, and the virtues of the ‘invisible hand’ are endlessly praised.”

In the neoliberal era, as observed by Önder and Uçkaç, “capitalism has been metamorphosed and financial capital has become dominant over material capital” (Ch. 3 in this book). Under neoliberalism, globalization rules imposed on developing economies under the concept of ‘free trade’ lead to an asymmetric trade: “opening up markets in the developing countries to goods from the advanced industrial countries without full reciprocation” (Stiglitz, 2007, p. 62).
More than three decades of neoliberal developmentalism have yet to really substantiate mainstream hopes that market mechanism is sufficient for economic development, stability, and social equity. Globalization has not pushed income levels up for most nations. In fact, just the opposite has occurred since growth rates have decreased. According to Chang, per capita income grew 3.1% per year between 1960 and 1980, while it grew only 1.4% per year between 1980 and 2000 in 116 developing and developed countries (2005, pp. 128-129). The frequency of banking crises, on the other hand, has increased dramatically with neoliberal restructuring and privatization: from 1970 to 1980 there were four banking crises worldwide, but the number increased to 120 from 1980 to 2007 (Laeven & Valencia 2008, p. 56).

With the accumulated knowledge, it has become increasingly clear that the world’s best economic performers – Japan in the 1960s and 1970s, subsequently Korea and Taiwan, from the 1980s China, and from the 1990s Viet Nam – have developed rapidly whilst protecting their domestic markets from imports, at least in the early stages of industrialization (Naughton, 2007, pp. 385-386). In practice, these countries have engaged in interventionist industrial policy beyond the correction of market failures. As Henderson and Appelbaum put it, “[f]or Northeast Asia at any rate, it is now simply impossible to argue that free markets have been the primary determinants of economic growth” (1992, p. 14). Therefore, there has been widespread disillusion with the experience of such market fundamentalist policies since the 1990s (Stiglitz, 1998).

As the neo-liberal Washington Consensus policies promoted by the international financial institutions have become less influential, the scope for industrial policy has increased. While industrial policy and trade policy for industrialization have been making a strong come-back in the 2000s and beyond, other developments in the international sphere have reduced the range of policy options (‘policy space’) available for developing countries to promote their industry (Wade, 2003). The World Trade Organization (WTO) has been important in setting the policy framework for industrialization. A series of WTO measures, mostly in force since 2000, restrict the ‘policy space’ for developing countries industrializing (Natsuda & Thoburn, 2014). These are:

- Trade-related Investment Measures (TRIMs)
- Trade-related Intellectual Property rights (TRIPs)
- General Agreement on Trade in Services (GATS)
- Subsidies and Countervailing Measures (SCMs)

For example, the TRIMs agreement rules out explicit local content requirements imposed on foreign investors, which often had been used in the motor industry to encourage local component suppliers. TRIPs restricts the ability of developing country firms to copy foreign designs without payment, and GATS helps foreign firms in services to access the domestic markets of developing countries. SCMs in principle prevent subsidies being used for helping industrial development, although these are sometimes not protested about by fellow WTO members.

Despite the fact that the ‘policy space’ has been restricted by agreements administered by the WTO, some countries have still managed to find scope to intervene effectively to promote their industrial development. However, massive expansions of exports by China, drawing on its reserves of surplus labor, have had the effect of depressing export prices, and thereby worsening the terms of trade of other developing countries (Thoburn, Ch. 2 in this book). Not only do new exporting countries face fierce competition from China, it is no longer enough for developing country producers to have low labor costs, even if they can manage the not-insignificant tacit technology involved even in apparently simple labor-intensive
products like garments. In practice, such exporters also need to gain entry to global value chains (GVCs) (Cattaneo et al., 2013; Gereffi, 2014). Moreover, levels of tariff-protection are today much lower than they used to be in recent decades, whilst the non-infringing use of non-tariff barriers is much more limited. Policy learning allowing for a more efficient use of non-infringing measures, such as those relating to research and regional subsidies, somewhat moderates this factor (Sercovich, Ch. 1 in this book).

The dominant ideology of our times has been dented, if not discredited, by the global economic crisis. And it is beginning to lose its stranglehold on thinking, at least political processes, if not in the ivory towers of academia. The world economy has seen overall economic growth weaken due to the worldwide financial crisis and associated reduction in economic activity. Therefore, grounds for optimism are considerably less solid today than was the case in the recent past.

As an authoritative reference source, this publication assembled some of prominent scholars and experts. These authors cover a wide variety of economic development issues with great clarity, illustrating them with a wealth of carefully-chosen examples and problems. Most of the chapter authors consider economic development from a comparative perspective and combine discussion of theory, empirical work, and policy objectives in compact form. The chapters are generally very balanced overview of market failures and government failures and thereby gain mature insight into desirable interactions between the market and the state.

The purpose of the volume is to provide an accessible introduction to the use of public policy to improve on market outcomes. It gives a balanced and insightful analysis of the scope and limits of what government can and should do. The chapters provide a rich, thought-provoking, and comprehensive overview of academic thinking about the role of government in the economy, emphasizing the role of political economy of institutional change in shaping how governments behave, and the resulting trade-offs between private and public provision. Some of the chapters would thus be of interest to researchers working in the relatively new area of institutional change and governance. There is an emphasis on the importance of the institutional context, drawing on examples mainly from European and Middle Eastern and North African (MENA) countries. The authors use rigorous but accessible formalism. While the information presented is cutting edge, the approach makes the chapters accessible to not only academics but also government officials, development agencies, practitioners, and undergraduates whose only prior exposure to economics is at the introductory level.

This handbook is unique not only in its broad scope but also in its balance between theory and practice. It brings a live theory with relevant empirical evidence combining history and theoretical approaches with cutting-edge issues and debates. Authors write from the ground up to reflect current realities of economic development. The volume covers diverse topics related to opportunities and challenges for economic development, such as catching-up, trade and industrial policy, state-owned banks, corruption, institutional quality, vocational education and training, R&D, diffusion of technology, innovation, competition, cooperation, and microeconomic policies, GVCs, current account deficit, and unemployment.

The first chapter of this handbook is written by Francisco Sercovich, who is a prominent Argentinian development economist specialized particularly on dynamics of technological change in developing countries. His chapter is about catching-up in an era of diminished expectations. According to Sercovich, countries intending to implement catching-up policies today encounter a much tougher global competitive environment than that met by South Korea and Taiwan in the 1960s and 1970s and China in the 1990s. Levels of tariff-protection are today much lower than they used to be in recent decades, whilst the non-infringing use of non-tariff barriers is much more limited. This is highlighted by the large number of countries locked-up in the ‘middle-income trap. He suggests that recent success stories of nations rising
‘from rags to riches’ within a single generation seem unlikely to be emulated in the post-2008 crash scenario. His chapter examines the nature of the conditions required for the potential for catching-up of middle-income economies to be realized. Sercovich identifies that “[t]here is nothing spontaneous or facile about catching-up. It takes a deliberate, sustained and costly effort with an uncertain outcome. Catching-up processes rely primarily on the mobilization of indigenous resources and capabilities.” He particularly emphasizes the key role of indigenous innovative (scientific, technological, organizational, managerial, institutional and policy) capability development in this process.

In Chapter 2, John Thoburn focuses on industrial policy for development, particularly in relation to trade policy. He reviews industrialization policies in developing countries since the Second World War, including the rise and subsequent demise of the so-called Washington Consensus approach. Thoburn discusses import substituting industrialization, export development, trade liberalization and the impact of post-2000 new WTO rules on trade-related policy measures. He identifies that as a result of the neoliberal Washington Consensus policies promoted by the international financial institutions liberalization of the trade regimes of developing countries, privatization of state enterprises and the removal of other controls were prevalent in the 1980s and 1990s. However, it has become increasingly clear that the world’s best economic performers have developed rapidly whilst protecting their domestic markets from imports, at least in the early stages of industrialization. As the neo-liberal Washington Consensus policies have become less influential, the scope for industrial policy has increased. However, the global market for more recent ‘late-industrialisers’ has become more competitive as China in particular has expanded its exports.

In Chapter 3, İzzettin Önder and Aynur Uçkaç analyze compelling conditions which are faced by developing economies in the current phase of the globalization. The authors indicate that capitalism has been metamorphosed in the current neoliberal era and financial capital has become dominant over material capital. According to authors, the current setting of globalization brings some opportunities, but more so exerts detrimental effect on developing economies in various ways. First, economic shocks created by financial funds affect real investments badly. Second, financial transactions exert relatively high burden on both labor and real capital on their returns, depending on their relative elasticity. High interest burden gives way to inequitable income distribution and as it burdens capital, it creates disincentive to real capital investment. As a result, “free markets” cannot secure optimal results for developing economies and create a real handicap for their endeavor to catch up with developed economies. Therefore, public intervention often becomes necessary for desirable social outcomes.

In Chapter 4, Thomas Marois examines state-owned banks and development issue from a heterodox economics perspective and argues that the neoliberal analysis of social reality armed with inappropriate tools. He points out that thirty years of neoliberal restructuring have side-lined alternative financing practices, and propagated mainstream myths about state-owned banks. Morais examines these neoliberal claims, arguing instead that state-owned banks can remain a crucial part of progressive, sustainable and democratic strategies for investments in long-term development and infrastructure. Drawing on past and present case studies, as well as theoretical literature on finance, Morais points to the potential to revive – and improve – state-owned banking as a viable option for financing public services. To this end, Marois dispels nine popular neoliberal claims about state-owned banks while discussing how state-owned banks have undergone neoliberal restructuring processes such as marketization and corporatization in ways that nonetheless challenge their status as ‘public’ banks. To illustrate, he looks at imperfect, but telling or inspiring examples from Brazil, China, Costa Rica, India, South Africa, Turkey, and Venezuela, among others.
Preface

Conventional wisdom implies that corruption has detrimental effects on the economy. Nevertheless, two opposing opinions have aroused. On one hand, an approach called ‘greasing the wheel’ views corruption can be tonic to growth; on the other hand, the approach called ‘sanding the wheels’ argues corruption is toxic to economic growth (Danon, 2011, p. 259). Nevertheless, the fact remains that even if corruption may benefit one, it hurts another. In Chapter 5, Noha Abubakr Farrag and Asmaa M. Ezzat investigate whether corruption affects growth in Europe and MENA region countries, and compares impact of corruption on growth using a pooled OLS model and a random effects model for the period 1999-2012. The results show the impact of corruption on growth depends on the region where the country is located. Surprisingly, the results indicate that for European countries corruption tends to have ‘efficiency-enhancing’ effect, while Arab countries tend to be plagued by ‘predatory’ corruption. Additionally, it was found that the prevalence of trust might offset the negative impact of corruption. The authors warn that results of any empirical model depend on the sample and techniques of estimation used and the relationship between corruption and economic growth tend to be sensitive to the inclusion of various determinants of growth.

Along with the development of the endogenous growth theory by the mid-1980s, a wide variety of factors are considered to be the competing determinants of economic performance, beside the conventional factors of production (i.e., capital and labor). Particularly, the institutional aspects of the economic performance have become one of the recent concerns of the researches with the emphasis that institutions are the essential determinant of the growth potential of the economies, which set the rules of the economic exchange and the market mechanism. Institutional deficiencies constitute obstacles against entrepreneurship and innovative incentives, by discouraging the flow and the mobility of resources in the economy. In Chapter 6, within the settings of the economic growth literature Tarkan Çavuşoğlu and Debi Konukçu Önal analyze the determinants of total factor productivity in the Central and Eastern Europe (CEE) and MENA regions, with a special emphasis on institutional quality. Beside descriptive analyses, the authors estimate several fixed-effect panel data regressions, which enable both cross-country and cross-regional analyses. The objective is to explore the embedded economic and social differences that are expected to shape the history of the institutional development in the CEE and MENA countries. Estimation results provide strong statistical evidence of institutional influences on total factor productivity in the CEE and MENA economies. Regression estimates of the chapter imply that the freedom environment, investment risk and the quality of the governmental services are the significant determinants of productivity in the CEE and MENA regions.

The effective use of resources is the main problem many countries face. A better use of scarce resources is possible with better human development. Moreover, higher social cohesion and lower criminality are attained by having more educated people in a society. Thus, human development is a major component of economic development and the choice between general education and the vocational education is crucial. As Carnoy and Samoff (1990) emphasize, “education is a primary vehicle for developing and training skills. The mechanisms to determine who assumes power are set by the education system.” The educational dimension of economic development is the main issue of Chapter 7. Pınar Feyzioğlu Akköyunlu focuses on investment in education and on the choice of the type of education comparing Germany and Turkey. She assesses the effectiveness of vocational education and training in economic development in this chapter. Akköyunlu identifies that “[v]ocational education and training’s effect on economic development can only be achieved if the education and training system is flexible and of high quality.” Some of the findings of the chapter are that investment in general education is not very effective in meeting the needs of the labor market in achieving an efficient production level. Labor-market oriented
vocational educational system is more effective in attaining a continuous growth rate. For a labor-market oriented vocational educational system, the collaboration of the government, public agencies and the social partners are necessary. The link between the educational institutions and the companies should be strong in order to provide in-company training. The dual system is very effective among other systems.

Currently, the most widely accepted view is that industrial activity is the key for economic growth of countries because it constitutes a significant portion of Gross Domestic Product (GDP) and is also has varied indirect effects on other sectors. In Chapter 8, Federico Pablo-Marti aims to highlight how the processes of trade and supranational integration through its requirements have improved the industrial competitiveness of MENA countries. The author first provides a brief overview of the industrial structure of the MENA countries, paying particular attention to the aspects linked to its industrial competitiveness. Second, he analyzes in detail the industrial policies aimed to promote the competitiveness of the industry for each country. Pablo-Marti concludes that the role and presence of industry in MENA countries is varied as well as varied are the industrial strategies and government plans. There are countries like Turkey or Israel where manufacturing is very prominent and opposite there are the Gulf countries which are concentrated in oil generation. The countries that have opted for supranational integration and international trade are showing a faster and more competitive industrial development.

In Chapter 9, Weshah Razzak, Belkacem Labas, and El Mostafa Bentour engage with the dynamics of technical progress in a mix of developed and developing countries. These are from OECD countries, Asian countries, and a few from the MENA region. They calibrate Jones’s (2002) semi-endogenous growth model to study the transitional dynamic and the properties of balanced growth paths of technological progress. In the model, long-run growth arises from global discoveries of new ideas, which depend on population growth. The transitional dynamic consists of the growth rates of capital intensity, labor, educational attainment (human capital), and research and ideas in excess of world population growth. Most of the growth in technical progress in a large number of developed and developing countries is due to transitional dynamics. Excess ideas explain the bulk of the growth in productivity in OECD, Asian countries, Egypt, and Tunisia. Although the OECD and the Asian countries seem to have grown very successfully, the MENA countries – except Egypt, Tunisia, and Turkey – have not done so despite the fact that they invested heavily in education. The author’s conclusion regarding the MENA countries is that they have not benefited from global research efforts and useable knowledge to create growth. They indicate the main lesson as “[a]lthough endogenous growth models are useful abstracts, the underlying assumptions may not hold in some developing countries.”

Innovation, which is generally the outcome of R&D activities, is one of the main tools used by firms to reach market leadership and forces the other agents to increase their own performance to limit the risk to be left out from the market. Innovation has also been at the core of economic and social development. In Chapter 10, Rafael Moner-Colonques and Jose Sempere-Monerris deal with R&D competition, cooperation and microeconomic policies. The authors aims to provide a broad overview useful both for academicians and practitioners in developing countries regarding: the specific nature of innovation, how firms use innovation to acquire a sustainable advantage in the market by either competing or collaborating and, finally, how governments elsewhere have developed instruments and implemented policies that enhance innovation and ultimately economic growth. In doing so, the authors survey the mainstream economic literature that addresses these questions. They point out that although innovation is an activity that is mainly directed by the private sector, governments have the imperative role of gardening it by the use of microeconomic policies among other instruments. Some of the important points made in the chapter are that domestic absorption capacity is critical to benefit from FDI and an appealing policy for
developing countries is the promotion of strong localized industries. Under large public spillovers total welfare is higher with cooperative-R&D and that gives national firms a strategic advantage relative to foreign rivals.

The strategy of the modern MNC increasingly focuses on building R&D capabilities abroad. By establishing R&D units abroad, MNCs access new knowledge, ideas and technologies and develop a better understanding of customers’ needs. Although MNCs are increasingly globalizing their R&D, there is an incomplete and inconsistent understanding of whether, and under what conditions, the knowledge accumulated from foreign R&D centers can improve the productivity of the parent firm. In Chapter 11, Lamia Ben Hamida addresses this issue by examining the factors that influence the extent to which reverse knowledge transfer (RKT) enhances the productivity of the MNC at home. Using a dataset on Swiss MNCs, this study analyzes the effects of RKT on the productivity of the parent MNC. It adds to our understanding of the value of foreign R&D investment. Contribution of this chapter is that the productivity benefits of RKT depend on the idiosyncratic characteristics of MNCs’ parent and R&D affiliates. The chapter shows that RKT has a stronger effect on the productivity of the parent MNC when foreign R&D units are charged with a knowledge seeking role. These effects further increase when R&D affiliates are well embedded in host countries. Surprisingly, the productivity enhancing effects of RKT do not differ much across acquired and green-field affiliates.

According to the new growth theory, technological improvement is the main source of economic growth and diffusion of technology is the basic mechanism of per capita income convergence among countries. Therefore, the growth rate of a country depends on the state of domestic technology relative to that of the rest of the world. In this setting, if technology diffusion were national in character, there would be no possibility for convergence of incomes. Each country would grow at a rate determined by its own research effort. However, in reality research in one country benefits from knowledge created in others, providing a mechanism by which a laggard country would tend to catch up, formulated by the diffusion of technology models of endogenous growth theory. In Chapter 12, Sumru Öz analyzes the convergence of incomes towards the FDI home country in Europe and in the MENA region, separately; and the prerequisites to derive benefit from FDI in a comparative manner. The chapter hypothesizes that technology diffusion measured by the convergence of per capita incomes depends not only on the absorptive capacity, but also on the investment capacity. To test this hypothesis, the convergence of incomes towards the FDI home countries in Europe and in the MENA region are estimated separately and the results are analyzed taking into account the absorptive and investment capacity of these countries in a comparative manner. According to the author, the differences in the convergence values are not so wide between some sub-groups of these two regions. The absorptive capacity hypothesis, together with the investment capacity explains the discrepancies between not only the two regions as a whole, but also sub-groups within each region. The strong complementary effects between FDI and both absorptive and investment capacity suggest that economic policy aimed at fostering growth should try to benefit more from FDI by increasing the absorptive capacity-enhancing own R&D activities and promoting human capital- as well as by improving investment environment.

In Chapter 13, Mine Üğurlu overviews the determinants of FDI forms of entry, and mergers and acquisitions (M&A) activity followed with an empirical investigation of the firm-level determinants of foreign investment in Turkey with emphasis on cross-border acquisitions and green-field investments. The first part of the chapter provides a theoretical overview that covers country-level determinants of M&A activity and foreign direct investment (FDI), integrated with evidence from firm-level drivers of M&As and foreign investment. The second part of the chapter documents an empirical study that displays
firm-level determinants of M&A activity and foreign investment in the 500 largest firms of the Istanbul Chamber of Industry in Turkey. Unlike most of the studies in this field, the sample for this study includes unlisted firms which are surrounded by higher information asymmetry and documents the differences in firm-level drivers of M&As and foreign investment for private and publicly traded firms. According to the author, for FDI to create technological spillovers and productivity in the host country, innovation in the domestic firms and competitiveness in the market should be encouraged by the policymakers of the host country. This requires policymakers to allocate more capital to reach a threshold of human capital, enhance domestic technology by establishing R&D centers to stimulate innovation, and assure free mobility of R&D personnel.

In Chapter 14, Milenko Popovic provides comparative analysis of the proximate causes of growth in MENA and East European countries. Although the chapter estimates only decomposition of the GDP growth rate into the contribution of capital, labor and total factor productivity (TFP), it, nevertheless, provide some important insight into the anatomy of the economic growth for the relevant countries. In the demand side of the sources-of-growth analysis, special attention is devoted to the level of capital account liberalization and its influence on growth anatomy. The chapter shows that due to capital and trade account liberalization and the consequent real exchange rate appreciation, almost all East European countries experienced a decline of external competitiveness of domestic sectors. The obvious end result was that only ‘absolutely’ competitive industries could survive. The analysis of the chapter also shows that the absolute level of TFP growth rate in the oil-exporting countries was 0.09%, which explains only 1.91% of GDP growth, while in the oil-non-exporting countries it was 1.91% and explains 41% of GDP growth. According to Popovic, the most convincing explanation for this situation seems as “oil curse” hypotheses.

In Chapter 15, from a neo-Schumpeterian perspective, Cem Tuncel and Ayda Polat use Kondratieff long waves to analyze the impact of nanotechnology on growth and manufacturing using case studies of the European Union, East Asian newly industrialized countries and MENA countries. According to the authors, stagnancy experienced in the 2008 is the harbinger of the end of the current Kondratieff wave and the sixth Kondratieff wave will appear in connection with the generic technologies, specifically nanotechnology. Tuncel and Polat warn that the countries which were unable to catch the industrial and microelectronic revolution in a timely manner are not likely to make use of the opportunity window that is open during this technoeconomic paradigm transformation period.

It is increasingly recognized that space activities has significant importance. The large majority of today high-tech applications that are used in everyday life, have their origins in past space-related activities and either became available to the mass market or were destined by national government to civilian operations. In Chapter 16, Alessandra Vecchi and Francesco Ricci have examined this rarely studied topic by international business scholars. Drawing on the experience of internationalization of an Italian Small Medium Enterprise, the authors investigate the specific challenges and opportunities that are associated with establishing the space sector in developing countries and NICs. The analysis shows that both developing countries and the NICs are particularly convenient in terms of investment costs. What makes these countries appealing is the high number of incentives for new investments, as well as the lower labor costs and a convenient taxation system. However, by taking into account the institutional environment and the business environment, the assessment significantly changes.

In Chapter 17, Hun Park examines the underlying structural, social and institutional problems or reform challenges of the Saudi Arabia’s economy. In so doing, the author critically examines Saudi Arabia’s economic development model, while crisply reassessing the government’s recent major policy...
responses to its development opportunities and challenges. Park offers some tentative suggestions for freshly rethinking about Saudi Arabia’s national long-term development strategy and its implementation. According to Park, it is crucial to strengthen the role of the Saudi government in policymaking to attain a sustainable long-term development. Therefore, his main focus is the institutional set-up, enhancement, and upgrading the government’s policy coordination and implementation mechanism. He suggests that Saudi Arabia’s new pilot ministry must possess necessary and sufficient power, authority, human and budgetary resources to act as the effective primary agent for implementing the nation’s long-term development strategy and plan.

Global value chains (GVCs) have changed the shape of international trade, creating increasing competition and co-dependency between countries. In Chapter 18, Seda Köymen Özer, Daria Taglioni, and Deborah Winkler assess Turkey’s position in GVCs and identify the conditions under which the country can better exploit the advantages from GVC participation, in particular how the country can economically upgrade its GVC position by reaping the benefits of spillovers to the domestic economy. The authors review Turkey’s participation in three key industries: the automotive sector, the textiles and apparel sector, and the agri-food sector. The results show that Turkey is relatively present in GVCs. However, the country seems to specialize in assembly and low value added segments of the value chain. According to authors, if Turkey wants to help its firms upgrade their position within GVCs, it will increasingly need to target capital- and knowledge-intensive activities, not only by maximizing the knowledge and technological spillovers from current participation in international production, but also by developing own innovation capabilities, talented human resources, infrastructure, and creating a business environment that helps increase the domestic firms’ productivity. This includes developing efficient and competitive services which are important inputs to produce higher value added manufactures.

In Chapter 19, Fatma Nur Karaman Kabadurmuş and Sajal Lahiri examine empirically the determinants of research and development (R&D) activities by firms in Turkey. In particular, the authors test if there is a non-linear relationship between R&D activities of a firm and the degree of competition in that industry. They use Turkish firm-level data from the Business Environment and Enterprise Performance Survey (BEEPS) and finds strong support for an inverted-U relationship between the two variables. The authors focus on the question of how competition affects product innovation, and not process innovation, in Turkey and test for possible non-linear relationship between the two variables.

In Chapter 20, Mustafa Özer and A. Erinc Yeldan test the nature of the variety of empirical relationships between current account deficits and unemployment in Turkey over the period 2000Q1–2012Q1. Working hypothesis of the authors is that the meager job creation in Turkey over the 2000s is the direct symptom of a speculative-led growth environment together with an excessively open and unregulated capital account in the age of relatively cheap and abundant global finance. Based on the vector error correction model (VECM), the authors find a unidirectional causality running from current account deficits to unemployment. Both Impulse Response and Variance Decomposition analyses are quite consistent with results of VECM. Özer and Yeldan interpret these findings as evidence of the structural characteristics of unemployment, reflected in output elasticities, being embedded under the deepening external fragility of the Turkish economy over the 2000s. According to authors, “the problem of unfriendly employment patterns of speculative growth ought to be tackled first and foremost by proper macro policies at large, rather than the much fashionable proposals of micro-managerial reforms” (emphases are original).

In Chapter 21, Oxana Karnaukhova and Inna Nekrasova focus on the role of securitization market in the post-crisis European economic recovery. Using data obtained from the database of the Securities Industry and Financial Markets Association (SIFMA), the European Central Bank and the Association
for Financial Markets in Europe (AFME) within the period of 2009-2014, the authors analyze transformation in the securitization market within the post-crisis economic recovery of the EU. The main conclusion the authors reached is that securitization can enhance both monetary and financial stability, allowing banks to lend without over-committing capital and funds. Borrowers such as SMEs are not able to tap markets directly, while securitization has been stigmatized, due to misaligned incentives for years prior to the financial crisis. The authors indicate that the use of “funding for lending” scheme has been very successful for the British economy and they assume the use of this scheme for the Eurozone is possible and could be appropriate.

The achievements of the Israeli economy over the last three decades have been impressive despite severe problems, especially in the 1980s. In Chapter 22, Paul Rivlin examines the Israeli stabilization programs of 1985 and 2003 as well as economic liberalization and fiscal policy changes. He argues that these have dramatically reduced inflation and encouraged growth besides improving the balance of payments and structure of the economy. However, by reducing the role of the state and public spending, they have contributed to growing inequality and relative poverty.

We believe these chapters will generate ideas for future research efforts as well as for the development of policies that will influence both global and national prosperity, not only in developing countries but also in advance countries.

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REFERENCES


**ENDNOTE**

1 Industrial policy is the means with which governments can hasten and influence the content of these processes beyond what the market would achieve unaided. Industrial policy is often justified to correct the many market failures in developing countries associated with externalities.