Handbook of Research on Institutional, Economic, and Social Impacts of Globalization and Liberalization

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This chapter adds to the understanding of trade globalization by accounting for the complexity and multi-dimensionality of the phenomenon at hand. This approach captures different aspects of the phenomenon, such as the interconnectedness of countries, geographical distance, and sectoral trade relationships over a period of 50 years. Thereby, both the commonalities and differences in the long-term trends for the individual dimensions of trade globalization are highlighted. Results indicate that regarding the number of positive bilateral trade flows, globalization was almost completed by 2016. Also, distance diminished significantly in importance for trade relationships. Yet, data shows that the degree of globalization was significantly different for high-tech sectors compared to low-tech sectors even though the latter could catch up over time. During recent years, protectionism tendencies have led to the discussion about a new age of slowbalization to be on the way while digitalization processes can integrate countries even further into global production and trade networks.

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The interactions between globalization and corruption do not seem to be consensual because, in addition to the complexity inherent in measuring these variables, there are a number of different channels that can generate contradictory effects. As such, the analysis this chapter proposes to develop will take into account the results of studies that point to the non-linearity of the relationship between corruption and globalization. In doing so, the chapter inserts in the analysis new dimensions on the measurement of globalization and, also, the levels of economic development of the wide sample of countries considered in this study. This methodology makes it possible to verify that the relationship between globalization and corruption depends on the country's level of development.

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This chapter investigates the long-run effect of globalization on public finance using data of developing countries from 2005 to 2017. The present research makes a contribution to the literature from various aspects. Firstly, integration and cointegration properties of the variables are considered. Then, the cointegrating relationship between globalization and public finance indicators is estimated by employing the fully modified ordinary least squares (FMOLS) and dynamic ordinary least squares (DOLS) estimators. The empirical results are mixed. Globalization influences both government expenditure and public debt positively and significantly in the long run, while it influences tax revenue negatively. Moreover, the effect of globalization on the increased share of indirect taxes in the long run is more than the effect on the increased share of direct taxes.

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Michael Torres-Franco, Universidad EAN, Colombia

Society in general has had a constant concern throughout its history and especially in recent years, where inequality has increased, and many more people live in poverty or in worse situations. Different economists have studied this situation and proposed solutions to it; governments have embarked on a constant fight to improve the economic and development conditions of the population, since this affects other indicators; but it looks like this battle is being lost globally. This chapter sought to analyze the dynamics of development in a series of countries through the analysis of different macroeconomic indicators, which were related to the financial crises of the last 15 years to determine the effect of the globalization of financial markets on nations in developing. The results of this analysis showed that although there is greater financial globalization, the crises have negatively affected the growth and economic development process of developing nations and have increased the social and economic gaps between countries.

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Tourism sector has become one of the leading economic sectors and export items for the countries in the globalized world after consistent growth during the past six decades. Furthermore, tourism sector is also a significant component of economic growth and an important source of foreign exchange and employment due to its labor intensive structure. Therefore, many countries have designed and implemented various economic and non-economic measures to improve inbound tourism. In this context, this study investigated the impact of economic, social, cultural, and political globalization on inbound tourism in selected Mediterranean countries for the period of 1995-2017 through panel regression analysis considering the limited related literature. The regression analysis revealed that economic globalization,

social globalization, cultural globalization, and political globalization positively affected inbound tourism. In this regard, the policies raising economic, social, cultural and political integration with global economy is expected to make a positive contribution to the development of inbound tourism.

Chapter 6
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Darko Marjanović, Institute of Economic Sciences, Belgrade, Serbia
Ivana Domazet, Institute of Economic Sciences, Belgrade, Serbia

Foreign direct investment is considered an effective way to enhance a country's comparative advantages. They are also a significant source of economic development, modernization, growth of production, exports, employment and income, and the main actors are multinational companies. Globalization of the market has increased the tendency for many companies to procure goods and services from different locations. The main goal of the paper is to present the structure and forms of FDI at the global level, as well as theories of FDI through the interconnectedness of multinational companies, their investments, and the economy of a country as an end user. The results of the research clearly indicate that it is in the interest of every country to attract as many FDI as possible, given that they are one of the success factors of the national economy in the global market. Therefore, the primary task of economic policy makers is to monitor world trends, harmonize domestic regulations and create an investment climate that will benefit foreign investors.

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Tom E. McDowell, Ryerson University, Canada

Experiments of 'basic income' in worlds of welfare suggest that different countries are prone to experience the same pressures and moreover, in ways that lead them to produce the same socio-economic outcomes, resulting in their convergence toward an alternative social policy tool outside of their own traditional welfare models to deal with such problems. The implication is that no single welfare model has proven adequate to the task of reducing or reversing negative outcomes to any significant extent thus far. This is the most probable reason why each type of welfare regime has designed and implemented a 'basic income' pilot in the post-2008 crisis period. However, experimental designs and results have so far diverged from each other in interesting ways, likely reflecting the interactions between different versions of 'basic income' and the different national environments in which they have been deployed.

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Okechukwu Ethelbert Amah, Lagos Business School, Pan Atlantic University, Nigeria

Despite the flow of foreign direct investment into Africa, there was low human development. Leadership was established as the missing link between high level of globalization in Africa and low economic development. The chapter established the role played by leadership in the relationship between globalization and poverty level in Africa. The chapter postulates that it was time the question of African leadership was directed to the hidden causes of poor leadership behavior instead of the ineffective means of seeking a surface change of leadership style without changing the underlying causes. African leadership mindset

was positioned into four quadrants, which accounted for the dark and the bright side of leadership in Africa. Also, it was argued that by changing the African leadership mindset to growth/external mindset, leadership behaviors could be transformed to drive change in structure and management to obtain the gains of globalization.

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Ecenur Ugurlu Yildirim, Social Sciences University of Ankara, Turkey

Although the significance of the foreign investors constructing the significant magnitude of GDP increases for the emerging markets, their equity markets' attractiveness is affected by their vulnerability to geopolitical risk. The purpose of this study is to empirically investigate the effect of the stock market globalization on the correlation between economic growth and geopolitical risk in Brazil. After the dynamic correlation between economic growth and the geopolitical risk in Brazil is obtained by DCC-GARCH(1,1) methodology, the nonlinear autoregressive distributed lag (NARDL) model is employed to examine the asymmetric relationship among variables. The findings demonstrate while the changes in the globalization of the stock market decrease the connection between economic growth and geopolitical risk in the long-run, the positive changes in the participation of foreign investors make economic growth and geopolitical risk more connected the in short-run. Moreover, this impact is asymmetric. This chapter provides valuable implications for international investors and policymakers.

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Dilek Murat, Bursa Uludag University, Turkey
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The present study aimed to rank the financial development levels of European Union (EU) nations and Turkey based on selected financial and economic indicators. Thus, the most recent annual data for these countries (2017) were analyzed with grey relational analysis (GRA). In the analysis, the decision criteria for 24 EU member nations and Turkey were determined as public debt, public expenditure, unemployment rate, Gini coefficient, and GDP growth. The grey coefficient scores obtained in the analysis revealed the financial performance ranking for the analyzed nations. Based on the entropy weighting method (EM) ranking, the top three countries with highest scores were Ireland, Czech Republic, and Slovakia, while the countries with the lowest scores were Spain, Italy, and Greece.

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Ali Tehci, Fatsa Faculty of Marine Sciences, Ordu University, Turkey

It is seen that the global economy has changed significantly as a result of digitalization, which facilitates cross-border communication and transactions. For this reason, businesses must use technology to promote their products or services and to encourage consumers. In this respect, social media platforms provide businesses with real-time opportunities such as running campaign events, promoting products or services. In this study, the concept of digital marketing, which is extremely important for businesses, was examined and the importance of this concept was tried to be explained with examples from real-time

marketing activities. Organizations or brands must take advantage of digital marketing opportunities to gain competitive advantage. Especially on social media platforms, companies are thought to be successful as a result of participating in real-time marketing activities and performing these activities appropriately.

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Globalization facilitates organizational expansion overseas and global workforce challenges. The key may be to understand which labor force characteristics increase economic efficiency. In turn, higher education institutions may need to incorporate industry's need for international interaction into strategic visions. Evidence-based research was conducted using Queens College, the City University of New York, as a case study to understand how internationalization of higher education enhanced economic success of minority immigrant graduates in the United States who were employed across industries. Primary sources included a survey of 524 alumni and group discussions with diverse undergraduates. The results discovered that the employment status and wage, of minority immigrant graduates, were positively impacted when they were exposed to globalized curriculums. This indicates that specific pre-labor market attributes increase economic success of this community and produce international scholars who transfer experiences into career skills that positively impact multinational businesses.

Chapter 13
Financial Globalization and the Development of China's Economy 227
Zhao Weili, Southern Federal University, China

Since the outbreak of COVID-19, the official Brexit and the trade friction between Sino-US, anti-globalization become the focus of the world. After 40 years of reform and opening up, China's economy is facing new challenges under the new world situation. This chapter mainly focuses on how to promote China's economic growth under the background of financial globalization. Firstly, this chapter will introduce the development trend of the globalization and analyze the relation between financial globalization and economic growth. Secondly, this chapter will examine the state quo of China's financial openness and compare the change of China's de jure financial openness with the change of China's de facto financial openness. At last, this chapter will expound challenges faced by China's economy and put forward possible solutions to these challenges in terms of financial globalization.

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Jayanth Narendra Deshmukh, FLAME University, India & Teach For India, Pune, India

The link between foreign direct investment and economic growth has been widely studied. The studies have provided insights into how developing nations enable growth by adjusting policies to entice investors. Foreign investors entering emerging markets have to make strategic decisions on how to set up their operations. Investors look for markets and countries that would maximize their returns and position themselves as leaders in the industry. Hence, understanding entry requirements and economic policies are vital to understanding FDI. Keeping this in mind, this chapter analyses FDI in socialist nations and how their policies have evolved over time. The chapter will analyze the motivations and trends in FDI and how institutional conditions have enabled or impeded growth. The chapter studies China and Vietnam

and compares their approach to FDI. The chapter uses Eclectic Theory posited by Dunning to understand changes in policies and how socialist nations are evolving to accept FDIs. The chapter concludes with a comparison section and presents scope for further research.

Chapter 15
The Effects of Globalization on Turkish Public Financial Management and Budget Process 273
Durdane Küçükaycan, Eskisehir Osmangazi University, Turkey
Gonca Gungor Goksu, Sakarya University, Turkey

The effects of globalization in the economic, political, and social life have deeply changed the roles of states, and in this process of change, the new management approach has become a current issue within public financial management. Some important principles such as fiscal transparency, accountability, efficiency, effectiveness, and economy have been given importance in the public sector, and middle-terms budgeting, strategic planning, performance management, performance indicators, annual reports, analytical budget classification have become to be implemented in the performance-based budgeting system. The authors have examined the innovations by globalization in the Turkish public sector and analysed the effects of changes with the adoption of Law No: 5018 in terms of Turkish public financial management. It has been mandatory that all Turkish administrations under the general government take attention to the regulations accepted in Law No: 5018. When evaluated from a positive perspective, public administrations in Turkey have got more managerial responsibility in their operations.

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The Effects of Globalization on Public Expenditures, Tax Revenues, and Public Debt: An Empirical Evidence From the European Countries 287
Fazlı Yıldız, Kutahya Dumlupinar University, Turkey
Ersin Nail Sağdıç, Kutahya Dumlupinar University, Turkey

Globalization is a process that transcends national borders, integrates national economies, cultures, technologies, governance and generates complex affairs with interdependence. Considering the emergence of globalization, the way it spreads and its impact areas, economic, financial, political, cultural, technological, geographical, sociological, and ecological aspects are mentioned. In this study, the effect of globalization on public expenditures, tax revenues and public debt in 1995-2017 period for EU countries was investigated within the framework of compensation and efficiency hypotheses. Analysis results indicate that globalization has a negative effect on public expenditures, but a positive effect on tax revenues. Study results analyzing the effects of globalization in EU countries favour the efficiency hypothesis in terms of public expenditures and the compensation hypothesis in terms of tax revenues. In addition, although panel cointegration tests indicate a long-term relationship between globalization and public debt in EU countries, long-term coefficients are not statistically significant.

Chapter 17
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Oya Tamtekin Aydin, Istanbul Bilgi University, Turkey

Globalization refers to the case wherein individuals' demand the fulfillment of their needs and desires from the world that they cannot fulfill within national borders and the dynamism these demands create within themselves. Moreover, this dynamic structure, which exists to satisfy needs and desires, has massively impacted the financial, political, and social lives of societies. Shaped around globalization, a

global market was established in the world. Further, the communication emerging due to the establishment of a global market necessitated the development of a common perspective among distinct cultures and revealed a need for people who could perceive this aspect. Thus, an inevitable bond was formed between globalization and education; this relationship is evidently observed in higher education institutions, as they are one of the essential components of an information society. This study therefore deals with different periods wherein the effects of globalization were noticed and the interaction between these periods and the field of higher education.

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Development of Environmental Taxes in The European Union in The Globalization Process: The Case of Croatia..... 326
Arzu Erdinç Ertürk, Uşak University, Turkey
Onur Ertürk, Manisa Celal Bayar University, Turkey

Unfortunately, people harm the environment as a result of their economic activities. The deterioration of environmental balance and global climate changes in the world as a result of this destruction give the awareness of environmental protection prominence. Many organizations operate on a global scale to protect the environment and return it to its former natural balance. In this context, the European Union (EU) is one of the communities that care about the environment. There are important operations for environmental protection within this community. Environmental tax is a good example of tools determined for use in protecting the environment. As is known, Croatia is the latest country to join the EU in 2013. To reveal the importance the EU attaches to environmental protection, environmental tax practices, the development of environmental taxes before and after its EU-membership in Croatia are analysed. Besides, the course of environmental taxes in Croatia from 2002 to 2018 is evaluated in the study.

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Musa Bayir, Bandırma Onyedi Eylül University, Turkey

Economic globalization has considerably accelerated in recent years. Therefore, they are expected that developments in the global economy have an impact on domestic economies. The chapter aims to analyse empirically the effects of global economic growth, global import demand, and global liquidity on Turkish economic growth. The method of the study is NARDL. The analyses include the 1987-2019 period. According to the empirical results, the growth in global economic output and global import demand has a positive effect on Turkish economic growth. Interestingly, the contraction in global economic output and global import demand also increases more strongly Turkish economic growth. In addition, while the increase in global liquidity has a positive effect on Turkish economic growth, the effect of the decrease in global liquidity is statistically insignificant.

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The Pacific Alliance: An Opportunity of Internationalization for MSMEs..... 356
Juan M. Gil-Barragan, Universidad EAN, Colombia
Andrés Aguilera-Castillo, Università degli studi di Urbino Carlo Bo, Italy

The Pacific Alliance is a regional trade agreement (RTA) between Chile, Colombia, Mexico, and Peru. It is generally expected that the implementation of this RTA will provides benefits to all micro, small, and medium enterprises (MSMEs) in the forms of greater internationalization opportunities. However, there are concerns over the extent to which MSMEs have benefited from this commercial agreement. Thus, this chapter analyzes the internationalization process of 23 MSMEs from Colombia that exported to member countries of the Pacific Alliance. The authors, using case study methodology analyzed the internationalization process of these firms and aimed to identify their unique behavior. Results shows that the process began by the creation of networks, the identification of opportunities abroad, and the definition of the internationalization path for each firm. In general, the firms used the institutional resources available in the Pacific Alliance framework to achieve their internationalization strategies.

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Mehmet Hilmi Özkaya, Uşak University, Turkey
Tuba Yücel, Uşak University, Turkey

There are many studies on the growth of emerging economies under the leadership of foreign trade in the literature. The majority of the mentioned studies reveal that exports increase growth. In addition to expressing the increase in exports in numbers in recent years, it is also seen that researches about its effect on growth are also prominent. In this context, Dumitruscu-Hurlin panel causality test was applied using data covering the period of 1990-2018 to determine the relationship between Turkey and BRICS countries' product diversification in exports and economic growth. Findings obtained shows that product variety in exports in the relevant country group is effective on long-term economic growth.

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The Changing Nature and Use of the Concept NEET in Contemporary Society: Normalising the NEET Age Cohort..... 394
Walter Matli, Vaal University of Technology, South Africa

Internationally, significant variation exists between the use and application of the term 'NEET' (not in education, employment, or training) to define levels of economic and social exclusion among groups of young people. It depends on the situation, and/or the context in which the term is applied. The term draw attention to unacceptably high levels of youth unemployment and economic inactivity, as well as the scarring consequences this may have on young people's lives. This chapter aims to provide a review of the shifting and changing age cohort included within the NEET category since its inception in the 1990s. The study utilises an entity-related diagram to demonstrate the international variation that now exists. Recommendations are made in order to maximise the deployment of a standardised definition of NEET, in order to achieve some commonality of understanding about how we measure and define 'NEEThood', and crucially, in developing and applying policy responses to address their needs.

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Impact of Trade Liberalization on Income Inequality: Evidence From Turkey 412
Dilara Ayla, Recep Tayyip Erdoğan University, Turkey
Çiğdem Karış, Trabzon University, Turkey

This study consists of trade openness in Turkey within the scope of the 1985-2018 period and examination of the cointegration and causality relationship between the Gini coefficient and per capita income levels. In this regard, per capita income, which is one of the economic welfare indicators, has been used as the

control variable. ARDL boundary test models used in the analysis have been examined by forming two models in which both variables have been evaluated as dependent variables. Therefore, the short- and long-term effects of both variables on each other have been determined. The cointegration relationship tests performed within the scope of the ARDL boundary test in the first stage of the analysis showed that these variables act together in the long run. However, it has been determined that the trade openness ratio negatively affected income justice in the short and long term.

Chapter 24
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Tafirenyika Sunde, Namibia University of Science and Technology, Namibia

The contribution of the chapter is to compare the empirical determinants of inward bound foreign direct investment in China and Africa and also find out what makes China an attractive FDI destination. To achieve this, the chapter analyses 15 empirical studies on China and 15 empirical studies on African countries. First, the chapter finds that the determinants of FDI common to both Africa and China include the market size, economic stability, resource, infrastructure, and efficiency-seeking factors. Second, the chapter establishes that the determinants of FDI specific to African countries include political stability, borrowing costs, country risks, access to land and property registration. Third, the chapter finds that the determinants of FDI that are specific to China include international visibility of regions, internal expenditure on research and development, geographic location and proximity (special economic zones and the opening of coastal cities), total cultural variations and the liberalisation of the Chinese economy.

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Arhan S. Ertan, Bogazici University, Turkey
Ahmed M. Musabeh, Kadir Has University, Turkey

North Africa is considered to be one of the wealthiest areas of the continent thanks to its natural resources and strategic geopolitical location. While the region is generating about one-third of Africa's total GDP, its economic indicators are not presenting a bright picture for North African countries. This chapter attempts to provide an in-depth overview of the investment environment and shed light on the main constraints on foreign direct investment (FDI) in each of the North African countries. The authors focus on contemporary trends in FDI and policies regarding human capital promotion and infrastructure development. The descriptive analysis indicates that the volume of FDI in the North Africa region is still weak compared to international flows to other developing regions. This outcome can be associated, in addition to unattractive FDI policies, with the absence of real economic and financial reforms, persistent political instability, lack of technological readiness, inadequate regulatory and institutional framework, high corruption and inefficient bureaucracy.

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Vahick A. Yedgarian, Regency Financial Group, USA

Expatriates of U.S.-based multi-national companies (MNCs) on overseas assignments face unique adjustment and job-performance issues that have affected employer operations, resulting in economic and financial loss, and low morale. The poor adjustment of Americans in Russia is generally due to the

type of job, type of position, and prior-international experience. This chapter addresses how expatriate adjustments and job-performances remain pivotal elements for success or failure in overseas assignments.

Chapter 27
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Zuhal Önez Çetin, Uşak University, Turkey

The provision of gender equality has been a critical agenda for public administrations and organizations. In Turkey, both local governments and central government has been dealing with initiatives towards the provision of equality of man and woman. At that context, Republic of Turkey Ministry of Interior, Foreign Affairs and European Union Department 2010 Circular on "Human Rights of Women and Girls" is an important Circular in terms of local governments and the issue of gender in Turkey. At the study, the local governments' relation with the issue of gender equality has searched. At that framework, firstly, the concepts of gender and gender equality have explained. Secondly, the national documents in related to women in Turkey, and Local Equality Action Plans of six provinces in the context of the Republic of Turkey Ministry of Interior and United Nations Protecting the Human Rights of Women and Girls and Development Joint Program have been explained to search the local governments' relation with the issue of gender, and lastly some practices of local governments have explained on the issue of gender equality.

Chapter 28
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Wissem Ajili, Eslsca Paris Business School, France

The chapter joins new reflections interested in measuring welfare and social progress. The main objective is to determine whether the sovereign debt management process in developing countries is economically viable, socially equitable, and ecologically sustainable. The analysis advocates rethinking the sovereign debt around the idea of social sustainability, that is, the non-questioning of the living conditions of present and future generations and their economic, social, and political choices. The chapter suggests the need for developing countries (1) to ensure a comprehensive management of public debt based on the co-responsibility of both the indebted countries and their creditors, (2) to borrow in priority to finance the most productive investment expenditures, which can have an impact on the populations' standards of living and on economic prosperity, and (3) to reduce the use of austerity programs and anti-social policies.

Chapter 29
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Mahmut Unsal Sasmaz, Usak University, Turkey
Abdullah Zeybekoglu, Usak University, Turkey

Throughout history countries have tried to gain power in order to get advantages for the issues such as providing territorial integrity, social security and internal and external security. As a result of this power-gaining race, defense expenditures had a significant place in countries' economies. In its broad sense, defense expenditures are defined as the share reserved from the national income for the country's defense in order to provide internal and external security of the state and maintain the order and safety of the community. The size of defense expenditures varies from country to country for various reasons. In this study the effect of defense expenditures and peace as a global public good on economic growth was analyzed in 11 European Union countries (transition economies) between 2007 and 2017 with the

help of panel data analysis. As a result of the study it was found out that there was a positive relationship between economic growth and defense expenditures. However, a negative relationship was identified between economic growth and peace level.

Chapter 30
The Business Transformation Framework and Enterprise Architecture Framework: Organisational Asset Management in the Lebanese Context 535
Antoine Trad, Independent Researcher, Croatia

In this chapter, the author based his research on his authentic mixed multidisciplinary applied mathematical model that is supported by a tree-base heuristics module, named the applied holistic mathematical model for organizational asset management (AHMM4OAM), where the proposed AHMM4OAM is similar to the human empirical decision making process, which can be applied to any type of asset management discipline, in order to support the evolution of organisational, national, or enterprise asset management. The AHMM4OAM can be used for the detection of financial irregularities, assets optimisations and eventual dangers for the organisation's or national assets. In the case of gigantic financial misdeeds that endanger national assets, which are related to fraud and money laundering that damage many organisations and even countries, and in this concrete case it is related to the Swiss, Union des Banques Suisse (UBS), in which 32 trillion US dollars are hidden and is the problem of global financial disequilibria. The AHMM4OAM is supported by a real-life case of a organisational (or business) transformation architecture in the domain of organizational (or enterprise) asset management (OAM) that is supported by the alignment of a standardized organisational or enterprise architecture blueprint.

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Salha Ben Salem, University of Monastir, Tunisia
Nadia Mansour, University of Sousse, Tunisia & University of Salamanca, Spain

The strong spread of coronavirus (COVID-19) in a very short time has revised the global forecasts and the focus has revolved into economic and financial recovery. During this crisis, the stakes will depend on the combination of health and economic policy, the behavior of people, and the condition of the financial market and industries. This chapter highlights the huge economic and financial impact of Coronavirus, especially in the Eurozone and the USA, and how these governments are responding to this worst crisis. Further, it highlights the different lines of modification of the "Brexit" agreement. Finally, this chapter deals with the important effect of globalization in the context of this health crisis.

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Nizamülmülk Güneş, Savings Deposit Insurance Fund, Turkey

The main function of banking is to contribute to economic growth by providing sectors outside of the finance section with financing that they need and fulfilling an intermediary role between lenders and borrowers. This intermediary function increases the importance of the banking sector compared to other sectors of the economy. Market structures are very significant in terms of firms' market entry and exit and stay on the market. Markets are subject to four different distinction as perfect competition, monopoly, oligopoly, and monopolistic competition markets. The objective in the market is to ensure efficiency in production and sales by pulling down the costs of production through competition. The factors determining

the market structure are the numbers of firms in the sector, the degree of restriction on the entry and exit of firms in the industry, the number of those requesting products and homogeneity degree of product produced The banking sector, unlike other sectors, has unique characteristics. Competition policies which are valid in other sectors are not appropriate for the banking industry. Market openness for instability and market failures change the structure of competition. Asymmetric information, product replacement costs and externalities create barriers to entry which, allows banks to be in a dominant position in their markets. This study examines the main indicators showing concentration, effectiveness, depth, and intermediation functions of Turkish banking sector and investigates in which market structure the sector operates. In this regard, it has made policy recommendations over the results obtained.

Chapter 33

Accounting Convergence, Mandatory Adoption of IFRS, and Accounting Quality 605
Sinem Ates, Department of Business Administration, Yalova University, Turkey

This chapter aims to investigate whether the mandatory adoption of international financial reporting standards (IFRS) leads to an increase in the accounting quality measured by value relevance and the role of the national institutional factors, namely development of the capital market, legal enforcement, cultural factors, legal systems, and book-tax conformity, in the change in value relevance after IFRS adoption. Towards this end, the price and financial data of listed firms from eleven EU countries for 15 years were examined by panel data methods. The results of this study indicate that mandatory adoption of IFRS leads to an increase in the value relevance of EPS however it has not a significant effect on the value relevance of BVPS. It is also found that, among the national institutional factors, legal enforcement, cultural factors, and book-tax conformity have a significant effect on the change in value relevance after IFRS adoption.

Chapter 34

The Past and the Present of Düyun-u Umumiye: A Comparative Analysis of Economic Institutions628
Başak Ergüder, Istanbul University, Turkey

In this study, it is aimed to examine the relationship between the capitalist state and, institutions that affected Turkey's financial integration with the capitalist global economy in the context of a comparative analysis. In the study, the Ottoman Public Debt Administration (OPDA) which was effective during the process of the integration of the Ottoman state into the world capitalism in the First Globalization Phase (1870-1914) is analyzed by comparison with the General Directorate of Borrowing. The General Directorate of Borrowing is also called as the post-modern Düyun-u Umumiye because of its organizational structure. The common feature of the Ottoman Public Debt Administration and the General Directorate of Borrowing is that both were established after the financial crises. In this study, General Directorate of Borrowing will be evaluated in terms of global economic developments and prospects and, within an analysis in comparison with the Ottoman Public Debt Administration.

Chapter 35

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Omer Faruk Ozturk, Faculty of Economics and Administrative Sciences, Usak University, Turkey

Corruption can be expressed as the abuse of public power for specific purposes and goals. The corruption in the public sector occurs as a result of state employees acting upon the private interests rather than public interest. The public borrowing policy is important for ensuring and maintaining the economic stability in a country. The high level of public borrowing is one of the important factors leading macroeconomic instability. Many institutional, economic, social, and political factors have been revealed as the determinants of public sector borrowing level. In this study, the causality relationship between corruption and public debt in 11 EU transition economies for the period of 2002-2017 was analyzed through causality tests of Kónya and Dumitrescu and Hurlin. Kónya panel bootstrap causality test revealed a one-way causality from public debt borrowing to corruption Croatia, Czechia, Hungary, Romania, and Slovenia and a one-way causality from corruption to public debt borrowing in Bulgaria, Estonia, Lithuania, Poland, Slovakia, and Slovenia. The Dumitrescu and Hurlin causality test discovered a bidirectional causality relationship between public debt borrowing and corruption.

Chapter 36
Supplier Selection in Food Industry Using Analytic Hierarchy Process (AHP) Method 657
Yusuf Ersoy, Uşak University, Turkey

The human population has been growing rapidly in recent years. One of the most basic needs of people is food. Many countries around the world invest in the food industry. Climate change, population growth, urbanization, natural disasters, and agricultural efficiency are important factors affecting food production. Companies must constantly control their production, marketing, and supply chain process depending on the rapidly changing competitive conditions. Supply chain management is an important process for companies to be successful and ensure their continuity in the food industry, as in many industries. Analytical hierarchy process (AHP) method is widely used in supplier evaluation. In this study, it was aimed to determine the best supplier of food production company using the AHP method. In the study, three different suppliers were evaluated according to five different criteria by taking the opinions of four experts working in the purchasing department. As a result of the study, the best supplier has been selected.

Chapter 37
Foreign Language (English) Learning in Cross-Cultural Communication in Indonesia 671
Mario Nugroho Willyarto, Bina Nusantara University, Indonesia
Ulani Yunus, Bina Nusantara University, Indonesia
Bhernadetta Pravita Wahyuningtyas, Bina Nusantara University, Indonesia

The use of English in all aspects, especially in the world of education in Indonesia, has become more popular. Indonesia has a strategic location geographically, the need to be able to communicate in English is inevitable. This chapter was focusing on the foreign-language learning of Indonesian people regarding their interaction with people from other countries and cultures, which is using English. There were several previous researches taken, to be discussed in this chapter in supporting the idea that interaction with people from different countries and cultures would be able to promote the process of foreign-language (English) learning in verbal communication, especially for Indonesian people. Researches came up with the results that cross-cultural communication of Indonesian showing that the circumstances were giving a positive impact for their work and life, either professionally or personally. The verbal interaction should be conducted well to a better understanding. In order to communicate well, one should be able to master the international language, in this case is English.

Chapter 38
Taxation Chapter in Turkey's Europan Union Membership Process 685
Murat Aydın, Uşak University, Turkey

With the signing of the Ankara Agreement in 1964, Turkey established economic relations with the EU of today for the first time. The EU candidate status was granted in 1999 and negotiations started in 2005. There are 35 chapters in the EU full membership process. One of the chapters is the Taxation Chapter. The aim of this study is to examine the taxation process between EU and Turkey. In this study, document scanning method has been used. In this context, Ankara Agreement, Financial Protocol, Provisional Protocol, Additional Protocol, Progress Reports, and Screening Meetings have been comprehensively screened. At the end of the study, the taxation provisions of the two parties have been set out in detail.

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Preface

The globalization have different meanings in different disciplines and in turn a single definition of globalization does not exist. However, globalization reflects the raising interaction and integration among people, companies, and governments in various fields such as economics and politics in the world. Furthermore, no consensus has been established on the origins of globalization. The globalization process dated back to the 1st century BC when the luxury products were brought to Rome from China. Some scholars accepted the beginning of globalization as 1492 in which Christopher Columbus took a journey to the New World.

The globalization process have been interrupted due to wars, economic and natural disasters in the period to the present. However, globalization has tended to rise together with liberalization since the 1980s, and accelerated especially after the fall of the Iron Curtain. The fourth globalization wave mainly driven by the digital revolution has been experienced at the present time. Nowadays, nearly all the countries integrated with global economy in different dimensions.

Globalization and liberalization with its pros and cons is one of the most discussed issues nearly in all disciplines including economics, public administration, and politics. The globalization and liberalization processes have affected the almost every part of our economic, social, cultural, and political lives. In this context, the main advantages of the globalization are suggested as technological progress, increases in output and productivity, job creation, increases in wages, and lower product prices. On the other side, negative advantages of the globalization are suggested as structural unemployment, environmental costs, tax competition and avoidance, brain drain, and less cultural diversity. Furthermore, the adverse events such as terrorism and epidemics can easily spread around the world with the contribution of globalization and liberalization. This book aims to investigate the institutional, economic, and social impacts of globalization and liberalization processes which have been experienced during the past five decades.

In this context, Chapter 1 investigates the trade globalization considering the factors such as the interconnectedness of countries, geographical distance, and sectoral trade relationships over a period of 50 years. The researched revealed that globalization was almost completed by 2016 considering the number of positive bilateral trade flows. However protectionism tendencies have led to the discussion about a new age of slowbalization to be on the way while digitalization processes can integrate countries even further into global production and trade networks. On the other side, Chapter 2 focuses on the interaction between globalization and corruption and reveals a non-linear relationship between corruption and globalization.

In Chapter 3, the author explores the long run impact of globalization on public finance in sample of developing countries. The research reveals that globalization affects both government expenditure and public debt positively in the long run, but affects tax revenue negatively. Chapter 4 investigates the

impact of the globalization of financial markets in sample of developing countries and reveals a highly globalized financial markets, but the crises have negatively affected the growth and economic development and have raised the social and economic gaps among the countries. In the Chapter 5, the scholars research the impact of economic, social, cultural, and political globalization on inbound tourism in selected Mediterranean countries and reach that economic globalization, social globalization, cultural globalization, and political globalization positively affected inbound tourism.

Chapter 6 explores the impact of foreign direct investments on business globalization and suggests that foreign direct investments contribute to the creation of new jobs, facilitate the transfer of technology, knowledge and skills, and strengthen the competitiveness of domestic companies. On the other side, Chapter 7 researches the basic income in different worlds of welfare and suggests that different political and economic systems are prone to experience the same kind of negative outcomes. Therefore, the countries with different policies, institutions and comparative advantages should seek alternative ways of addressing their socio-economic problems through innovative solutions. Chapter 8 questions the role of African leaders in the interaction among globalization, liberalization, and poverty level in Africa and suggests that leadership is important to obtain the gains of globalization for the countries.

Chapter 9 investigates the effect of the stock market globalization on the correlation between economic growth and geopolitical risk in Brazil and reveals that the changes in the globalization of stock market decrease the connection between economic growth and geopolitical risk in the long-run, but the positive changes in the participation of foreign investors make economic growth and geopolitical risk more connected the in short-run. In Chapter 10, the authors rank the financial development levels of European Union members and Turkey based on selected financial and economic indicators and disclose that three countries with the highest scores were Ireland, Czech Republic and Slovakia, while the countries with the lowest scores were Spain, Italy and, Greece. Chapter 11 examines the concept of digital marketing through examples from real-time marketing activities and suggests that organizations or brands should take advantage of digital marketing opportunities to gain competitive advantage and companies are thought to be successful especially on social media platforms, because of participating in real-time marketing activities and performing these activities appropriately.

Chapter 12 investigates the impact of internationalization of higher education on economic success of minority immigrant graduates in the United States and reveals that employment status and wage of minority immigrant graduates are positively affected when they are exposed to globalized curriculums. In Chapter 13, the author explores the interaction between financial globalization and economic development in China and suggests that China should improve the current social basic conditions, namely establish a financial system matching the real economy, create a good business environment, and internationalize the governance capability in order to seize the opportunity of financial globalization. Chapter 14 explores the FDI evolution in China and Vietnam in a comparative way and reveals that both countries have reacted the FDIs differently and in turn experienced different impacts and Chinese economy seems to have benefitted more than Vietnamese economy.

In Chapter 15, the authors research the impact of globalization on public financial management and budget process and reveal that public sector adopted the principles of transparency, accountability, efficiency, and effectiveness in the public sector and middle-terms budgeting, strategic planning, performance targets/indicators, annual reports, analytical budget classification have become to be implemented in the performance-based budgeting system. Chapter 16 analyzes the effect of globalization on public expenditures, tax revenues and public debt in sample of EU states and reveals that globalization has a negative effect on public expenditures, but a positive effect on tax revenues. The results favor the

efficiency hypothesis in terms of public expenditures and the compensation hypothesis in terms of tax revenues. Chapter 17 examines the impact of globalization on the international higher education and reveals that the international student mobility continues to increase and students prioritize the cost–benefit relationship and the job opportunities that they are to be provided with and institutions prioritize utilizing the opportunities provided by technology; therefore, new teaching models became a necessity.

In Chapter 18, the authors examine the evolution of environmental taxes in Croatia during the globalization process and reveal a significant level of environmental protection awareness in Croatia and EU make a significant contribution to environmental protection awareness. Chapter 19 analyzes the impact of global economic growth, global import demand, and global liquidity on economic growth in Turkey and reveals that the growth in global economic output and global import demand has a positive impact on Turkish economic growth. Also, the contraction in global economic output and global import demand also increases more strongly Turkish economic growth. In Chapter 20, the authors analyze the internationalization process of 23 Micro, Small and Medium Enterprises (MSMEs) in Colombia that exported to member countries of the Pacific Alliance and reveal that the firms generally use the institutional resources available in the Pacific Alliance framework to achieve their internationalization strategies. Chapter 21 analyzes the impact of export diversification on economic growth in sample of BRICS-T countries and reveal one-way causality from economic growth to export diversification

Chapter 22 examines the international variations in term of NEET (Not in Education, Employment or Training) and to provides a review of the shifting and changing age cohort included in the NEET category since its inception in the 1990s and reveals that there is a population that remains attached to the NEET post-youth age cohort. In Chapter 23, the authors investigate the impact of trade liberalization on income inequality in Turkey and reveal that trade liberalization negatively affect income inequality in the short and long run. Chapter 24 explores the empirical determinants of FDI inflows in China and Africa and reveals that market size, economic stability, resource, infrastructure and efficiency-seeking factors are common determinants of FDI inflows in Africa and China. Furthermore, the determinants of FDI specific to African countries include political stability, borrowing costs, country risks, access to land and property registration and the determinants of FDI that are specific to China include international visibility of regions, internal expenditure on research and development, geographic location and proximity (special economic zones and the opening of coastal cities), total cultural variations and the liberalization of the Chinese economy.

In Chapter 25, the authors reviews the investment environment and shed light on the main constraints on foreign direct investment in each of the North African countries and reveals that FDI volume in the North Africa region is still weak compared to international flows to other developing regions mainly resulting from unattractive FDI policies, with the absence of real economic and financial reforms, persistent political instability, lack of technological readiness, inadequate regulatory and institutional framework, high corruption and inefficient bureaucracy. Chapter 26 examines the adverse effects and intangible costs for American expatriates in Russia and reveals that the poor adjustment of Americans in Russia is generally due to the type of job, type of position, and prior-international experience. Chapter 27 explores the local governments' relation with the gender equality in Turkey and national documents and some practices of local governments on gender equality have been explained in the study. Chapter 28 examines the sovereign debt management process in developing countries in terms of economically viable, socially equitable, and ecologically sustainable and suggests the developing countries to ensure a comprehensive management of public debt based on the co-responsibility of both the indebted countries

and their creditors, to borrow in priority to finance the most productive investment expenditures, and to reduce the use of austerity programs and anti-social policies.

Chapter 29 analyzes the impact of defense expenditures and peace on economic growth in sample of 11 European Union transition economies and reveals that defense expenditures have a positive impact on economic growth, but peace had a negative impact on economic growth. In Chapter 30, the author develops a model called as the Applied Holistic Mathematical Model for Organizational Asset Management (AHMM4OAM) which is similar to the human empirical decision making process; which can be applied to any type of asset management discipline, in order to support the evolution of organizational, national or enterprise asset management. In Chapter 31, the authors explores the economic and financial impacts of Coronavirus, especially in the Eurozone and the USA and describes the Covid-19 global pandemic is the most defining economic and social event in decades. The coronavirus outbreak could put an end of the globalization process through the increasing restrictions on the free movement of personnel, jobs, goods, information, and money. Furthermore, the health crisis has tightened immigration rules, created new barriers to trade and investment, shortages supplies, technological cutting, and return countries to their policies.

Chapter 32 examines the concentration, effectiveness, depth and intermediation functions of Turkish banking sector and reveals that Turkish banking sector has an imperfect competition market. Chapter 33 investigates the impact of the mandatory adoption of International Financial Reporting Standards (IFRS) on the accounting quality in 11 EU countries and reveals that mandatory adoption of IFRS leads to an increase in the earnings per share, but it does not have a significant effect on book value per share. Chapter 34 examines the relationship between the capitalist state and institutions that affected Turkey's financial integration with the capitalist global economy in the context of a comparative analysis and evaluates that the state in the 21st century is embedded in the finance capital but independent of it, making it more sensitive to the demands of international capital. The transformation of the state intervention during globalization makes international capital a current issue for the states thanks to the duties of the state to protect the international finance capital. Chapter 35 investigates the causality relationship between corruption and public debt in 11 EU transition economies and reveals a one-way causality from public debt borrowing to corruption Croatia, Czechia, Hungary, Romania and Slovenia and a one-way causality from corruption to public debt borrowing in Bulgaria, Estonia, Lithuania, Poland, Slovakia and Slovenia.

Chapter 36 determines the best supplier of food production company using Analytical Hierarchy Process (AHP) method through evaluating 3 different suppliers according to 5 different criteria. Chapter 37 focuses on the foreign-language learning of Indonesian people regarding their interaction with people from other countries and cultures, which is using English and discovers that interaction with people from different countries and cultures would be able to promote the process of foreign-language (English) learning in verbal communication, especially for Indonesian people. Lastly, Chapter 38 examines the taxation process between EU and Turkey and reveals the measures to be taken for full compliance with EU regulations.

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Chapter 1
Is the World Flat or Not (Yet)?
Trade Globalization and Digitalization

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ABSTRACT

This chapter adds to the understanding of trade globalization by accounting for the complexity and multi-dimensionality of the phenomenon at hand. This approach captures different aspects of the phenomenon, such as the interconnectedness of countries, geographical distance, and sectoral trade relationships over a period of 50 years. Thereby, both the commonalities and differences in the long-term trends for the individual dimensions of trade globalization are highlighted. Results indicate that regarding the number of positive bilateral trade flows, globalization was almost completed by 2016. Also, distance diminished significantly in importance for trade relationships. Yet, data shows that the degree of globalization was significantly different for high-tech sectors compared to low-tech sectors even though the latter could catch up over time. During recent years, protectionism tendencies have led to the discussion about a new age of slowbalization to be on the way while digitalization processes can integrate countries even further into global production and trade networks.

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INTRODUCTION

Along the last decades, globalization has been a hot topic both in academic literature and policy debate regarding not only its current characterization but also its effects and, although to a lower extend, the sustainability of the phenomenon (see for instance Figge, 2017; Beumer, Figge, & Elliott, 2018). Between 1990 and 2010, trade volume measured as a portion of world GDP has constantly risen, with China's integration into the world trade network playing a major role in this development. Additionally, the success of GATT and WTO rule settling lead to the abolishment of quota regimes and the decline in tariffs, making the establishment of global value chains more advantageous (OECD, 2005). Moreover, advances in information and communication technologies as well as automation and digitalization processes reduced trade costs even further, making it ever more easily to trade between faraway places. Especially since the early 1990s, globalization has dramatically gained momentum regarding size, scope and speed; this is why this phase is sometimes also referred to as the golden era of globalization or as hyper-globalization (Subramanian & Kessler, 2014). With the Great Recession in 2009, the trend of growth in world trade and trade integration, however, had come to a pause. Protectionist policies and trade tensions between US and China lead to an increase in tariffs on Chinese imports as well as global tariffs on steel and a European tariff on automobiles. The Economist referred --to this new situation as slowbalization. Bordo (2017) and The Economist (2019) identified several additional factors for the decrease of the growth rate at which trade volume (that is used as a proxy for globalization) had evolved. First, as trade costs had already declined by a large fraction, there is hardly any further room for additional cost cutting when goods have to be shipped from one country to another. Second, many advanced economies have moved on towards service economies. As such, services are still far less traded compared to goods and trade in services and data are still less captured in traditional trade data, thus underestimating trade volume. Third, China has become more self-reliant in the production of medium-tech to high-tech as well as high-skill products, making China less dependent on imports and thus having a dampening effect on world trade volume. Fourth, global supply chains and completely integrated global firms become more ineffective since the Great Recession in 2009 as with lower income, less consumption and lower volumes of trade, splitting tasks of production over a set of countries has run into diseconomies of scale. However, digitalization also made the coordination of global value chains easier and more cost-effective, which should be able to boost trade globalization and the number of sectors that countries trade with in the long run.

In this chapter, the authors aim to address three critical topics related to the broad phenomenon of economic globalization. First, the authors provide a broad conceptual discussion on the definition of trade globalization and show that this concept has to be captured in a multi-dimensional way and cannot be satisfactorily analysed by the interpretation of world trade volume alone. This builds the foundation to clarify the differences between the concept of globalization and other connected research topics, such as internationalization or regionalization of trade. Second, the authors focus on identifying key dimensions of trade globalization and aim to shed more light onto these important components. In more detail, the authors study trade volume as well as distance, the number of trade flows, and sectoral components. Based on that discussion, the authors present evidence on the evolution of trade globalization along a period of 50 years. Describing the multi-faceted process for that time period, the authors can catch important developments and show a differentiated picture of the evolution of trade globalization. Third, the authors discuss how major trends in contemporary world economy – such as digitalization – affect globalization and how distance has become less relevant for global value chains, leading to a higher degree of interdependence of countries worldwide.

Background

The current section deals with two main topics: (1) the various definitions of globalization (and, more specifically, the meaning of economic globalization); and (2) the presentation of the most diffused measures of trade globalization. As such, the authors present the state of the art of existing research as well as the current research gaps.

Aiming to summarize the core ideas emerging from the definitions of globalization, the chapter starts the discussion with a short review of some of the most important definitions of globalization available in the literature. From Table 1 it becomes evident that the phenomenon of economic globalization is multi-dimensional and as such a clear, precise, and uniform definition is missing. Rather, globalization encompasses a wide set of influencing factors and therefore also a variety of indicators should be used to measure its development.

Table 1. Definitions of Globalization

	Definitions of Globalization
Definition 1	"a historical process which involves the widening, deepening, speeding up and growing impact of worldwide interconnectedness. This process, however, is highly uneven" (McGrew, 1992, p. 15)
Definition 2	"a process that erodes national boundaries, integrates national economies, cultures, technologies and governance, and produces complex relations of mutual interdependence" (Norris, 2000, p.155).
Definition 3	"a process of increasing interconnection and interdependence between societies" (Conley, 2002, p. 488)
Definition 4	"identifies globalization as the spread of transplanetary – and in recent times more particularly supraterritorial – connections between people. From this perspective, globalization involves reductions in barriers to transworld contacts. People become more able – physically, legally, culturally, and psychologically – to engage with each other in 'one world'" (Scholte, 2002, p. 13-14).
Definition 5	"Contemporary globalisation is defined as the intensification of cross-national interactions that promote the establishment of trans-national structures and the global integration of cultural, economic, ecological, political, technological and social processes on global, supra-national, national, regional and local levels" (Rennen & Martens, 2003, p. 143).
Definition 6	"The term globalization is usually used to refer to the contemporary processes – especially flows of capital, commodities, and information – that are operating to form a unified global economy. Globalization is presumed to be accompanied by the decline of the nation-state and market homogenization as we proceed inexorably toward a vast, unregulated market system dominated by multinational corporations" (Schneider, 2003, p. 389-390).
Definition 7	"The process of globalization is an international economic order which lead to the progressive integration of the world economy through pulling the barrier of trade, exchange rate and greater mobility of factors of production" (Bhandari & Heshmati, 2005, p. 1).
Definition 8	"The term 'globalisation' has been widely used to describe the increasing internationalisation of financial markets and of markets for goods and services. Globalisation refers above all to a dynamic and multidimensional process of economic integration whereby national resources become more and more internationally mobile while national economies become increasingly interdependent" (OECD, 2005, p. 11).
Definition 9	"Globalization is a process that encompasses the causes, course, and consequences of transnational and transcultural integration of human and non-human activities" (Al-Rodhan and Stoudmann, 2006), p. 2).
Definition 10	"In its current incarnation, globalisation includes social, political as well economic factors. Hence, contemporary globalisation may be defined as the intensification of cross-national economic, political, cultural, social and technological interactions that lead to the establishment of trans-national structures and the global integration of economic, political and social processes on a global scale" (Dreher & Gaston, 2007, p. 6).
Definition 11	"Globalization is a broad concept casually used to describe a variety of phenomena that reflect increased economic interdependence of countries. Such phenomena include flows of goods and services across borders, reductions in policy and transport barriers to trade, international capital flows, multinational activity, foreign direct investment, outsourcing, increased exposure to exchange rate volatility, and immigration" (Goldberg & Pavcnik, 2007, p. 41).
Definition 12	"Globalisation – which we define as the increasing interdependence of economies via cross-border transactions in goods, services, natural resources, capital and labour" (di Mauro & Forster, 2010, p. 6).

Based on these definitions, it is first of all obvious that globalization cannot be adequately captured through simple and unidimensional measures (OECD, 2005). Second, due to decreasing trade barriers (namely communication and transport costs as well as the abolishment of tariffs and quotas), distance and space have become less important over time. In particular, freight costs were halved between the mid-1970s and the beginning of the 21st century due to the more extensive use of air transportation, bulk shipping and containerization (World Bank, 2009). Additionally, the World Trade Organization helped to decrease tariffs and customs duties on average below four per cent at the end of the 20th century, facilitating trade with faraway countries. This progressive "death of distance" is in fact the subject of an intense debate in this area of research, which can be summarized in the famous dichotomy "the world is flat" (Friedman, 2005) versus "the world is not flat" (Christopherson, Garretsen, & Martin, 2008). Third, the interconnectedness of places is increasing through the higher proportion of fragmentation in production processes that lead to the establishment of global value chains, where the different stages of production processes are located across different countries due to their competitive advantages (Feenstra & Hanson, 1996). This finer international division of labour leads to significant increases in bilateral trade relations as many countries are involved in producing single products (Stehrer, Ali-Yrkkö, Hanzl-Weiss, Foster, Rouvinen, Seppälä, Stöllinger, & Ylä-Anttila, 2011). Bearing this aspect in mind, it is important to consider that globalization impacts not only the number of countries involved in trade and the total volume of trade but also has a sectoral component, thus requiring a careful analysis of what happens at a more disaggregated level.

Before introducing the conceptual framework to evaluate the level of trade globalization in the next section, this chapter discusses the most commonly used measures of globalization. Special attention is given to the economic dimension in which trade is - by far - the most critical element.

The two most commonly applied measures of trade globalization are the total volume of trade and the degree of openness. Despite their simplicity (which is a merit), these indicators are, on the one hand, insufficient to deal with the complexity of the concept and, on the other hand, not adapted to a truly global perspective. In most cases, they are calculated at the country-level, which can be assumed as no more than a preliminary approach for the measurement of internationalization. Yet the quantification of globalization needs a different approach with the adoption of a supra-national level of analysis. This new approach is indispensable, in the opinion of the authors, to take into account not only the volume of trade but also its global structure, both in overall and sectoral terms. However, the answer to the limitations of the two measures above mentioned does not follow, in most of the cases, this line of reasoning. They opt instead to overcome the problem associated with the unidimensional nature of the measures, introducing therefore multidimensional metrics, which is, until now, the dominant approach. In the following, some of the most prominent indicators that follow this dominant approach are described.

The Foreign Policy/A.T. Kearney Index (A.T. Kearney, 2001, 2007) was one of the first measures proposed that takes into account a combination of many unidimensional factors at the country level. It aims to quantify the degree to which a country is connected with the remaining ones and the degree to which it is affected by globalization.

Since its proposal, several shortcomings were identified (see, for instance, Scholte, 2002; Lockwood, 2004; Heshmati, 2006) and this has led to the introduction of alternative metrics. In this context, the authors want to highlight for example the Maastricht Globalization Index (Martens & Zywietz, 2006; Martens & Raza, 2009; Figge & Martens, 2014), the KOF Globalisation Index (Dreher, 2006; Gygli, Haelg, Potrafke, & Sturm, 2019), and the New Globalization Index (Vujakovic, 2010). As one of its important differentiation factors, the first index adds the environmental dimension to the analysis of

globalization, offering therefore a more comprehensive perspective. In turn, the KOF Index is the most diffused measure of globalization, covering not only the economic dimension but also the political, social, and cultural dimensions of the phenomenon. A key advantage of this index is the fact that it uses statistical analysis to obtain (in a more robust way) the weights given to the different variables (Dreher, Gaston, Martens, & Van Boxem, 2010). Finally, the index introduced by Vujakovic (2010) has also clear pros and cons. On the positive side, it is the only composite index that includes distance in the evaluation of trade globalization (as preconized in the next section). However, it does not include the number of countries that participate in world trade, being therefore inadequate to account for its structure, which is a critical element of the globalization process.

As already mentioned, all the globalization indicators presented above include economic globalization as a core dimension, with trade globalization being one of the most important of its sub-dimensions (although the specific weights given to the economic dimension and trade sub-dimension differ in the distinct measures). Some of these multi-dimensional indexes evaluate trade globalization through the simple variables mentioned above. In particular, the degree of openness is largely used. A myriad of alternative specifications were considered to that effect, as discussed in detail by Squalli and Wilson (2011).

An important shortcoming of almost all of these metrics is the fact that they evaluate globalization at the country-level. In line with the discussion developed by Figge and Martens (2014), the authors argue that this procedure does not allow to capture the concept of globalization, accounting instead for the concept of internationalization. Although obviously connected, they are different concepts because the latter adopts a country-level perspective while globalization should be evaluated at a truly global/world level. Thus, all these measures lack the consideration of a critical dimension of the phenomenon – the structure of international trade.

One of the most interesting approaches that tries to overcome this problem is the network analysis. While this approach is applied in several areas of research, it is also useful for the evaluation of globalization. As mentioned for example by De Benedictis, Nenci, Santoni, Tajoli, and Vicarelli (2014) and De Lombaerde, Iapadre, McCranie, and Tajoli (2019), in this approach the countries are embedded in the web of trade relationships. Some empirical applications were already conducted to measure the level of globalization making use of network analysis. One of the most important studies in this area was developed by Arribas, Pérez, and Tortosa-Ausina (2009). This study assumes that globalization can be seen as a bounded phenomenon and therefore its main objective is the quantification of the gap between the current level of globalization and the maximum that can be achieved, which corresponds to what is called "perfect international integration".[1] This idea is extremely useful but not without limitations. Two of those limitations should be highlighted. First, the specific meaning of "perfect international integration" corresponds to the notion of equilibrium in the international trade flows, which is an insufficient concept. Second, it ignores one of the most important (or even the most important) dimension: the volume of trade. In order to simultaneously retain the positive contribution of this approach and avoid its shortcomings, in the empirical exercise conducted in the current chapter the authors will make the distinction between bounded and unbounded dimensions of globalization, corresponding this last case to the total volume of world trade.

MAIN FOCUS OF THE CHAPTER

Issues, Controversies, Problems

The previous section clearly illustrates the complexity associated with the term "globalization" and one of its key components – trade globalization. Based on the definitions discussed, in this section the authors introduce some simple measures to evaluate the level and the evolution of trade globalization along the time. To that end, the first task is to define the dimensions that should be included in the globalization indexes. In this context, four critical dimensions of trade globalization are considered:

1. **Number of positive trade flows:** based on the idea that interdependence is one of the most important elements of globalization, the authors consider that the existence of more bilateral relations with positive trade implies a greater level of trade globalization, i.e., trade globalization positively depends on the number of positive bilateral trade flows. Of course, defining the existence of trade flows requires the identification of the specific threshold above which trade exists between those countries. In order to keep the analysis as simple as possible, the authors assume 0 as the valid threshold.
2. **Volume of trade:** this is the most traditional (and obvious) dimension of trade globalization. As data is available for a large set of countries and for long time periods, this indicator is often used as a simple proxy for globalization. The idea is that the greater the volume of world trade, the greater the level of trade globalization.
3. **Distance:** another important element emerging from the definitions discussed in the previous section is that distance matters regarding the measurement of globalization. A more globalized world in terms of trade is a world in which the countries have trade flows with countries that are more distant and not only with the closest ones. This element allows us to make the distinction between globalization and regionalization. According to Johnson and Noguera (2012) and Baldwin and Lopez-Gonzalez (2015), despite the decline in trade costs, distance still matters for bilateral trade. Their work emphasizes that whereas trade occurs also over longer distances, regional trade relations remain the most important ones. They suggest to refer to regional trade blocs rather than talking about global value chains.
4. **Number of sectors:** a comprehensive analysis of trade globalization should include information at the sectoral level. This allows to identify differences between sectors in what regards the level of bilateral connection among the countries and, therefore, to verify how far the current situation is from the maximum level of trade globalization in this specific dimension (which occurs when there are trade flows of all sectors among all country pairs).

It is important to stress that the four dimensions above identified have different natures. While dimensions (1), (3), and (4) have a bounded nature since they all have an upper limit, the same does not occur in the case of volume of trade, which is, by definition, unbounded. This is an important aspect because, in what concerns the bounded dimensions of trade globalization, it is possible to verify how close the current level is to that upper limit or, on the contrary, whether there is still room to increase.

Summing up, the concept of trade globalization can be summarized as presented in Table 2.

Table 2. Dimensions of Trade Globalization

Trade Globalization			
Unbounded Dimension	**Bounded Dimensions**		
Trade volume	Number of flows	Distance	Number of sectors

Once defined the concept of trade globalization, the discussion is shifted to the definition of measures able to capture the empirical importance of each one of these dimensions. With this objective in mind, the authors consider the matrices of bilateral trade. The generic element of this matrix is represented by y_{iht} in which the exporting country is defined by i ($i = 1, 2, \ldots, I$), the importing country by h ($h = 1, 2, \ldots, H$), and t represents the period of time. Thus, y_{iht} is the exports from i to h in year t.

The total number of elements of this matrix is $I*(H-1)$ since the countries do not trade with themselves.

Aiming to capture the four dimensions identified above, the authors first introduce the simplest index of trade globalization, which is designated as $TG(1)$ his index only takes into account the number of positive trade flows and is represented as:

$$TG(1)_t = \frac{\sum_{i=1}^{I}\sum_{h=1}^{H} p_{iht}}{I(H-1)}. \tag{1}$$

in which p_{iht} is a dummy variable with value 1 when there is trade from country i to country h in year t:

$$p_{iht} = \begin{cases} 1 \; if \; y_{iht} > 0 \\ \\ 0 \; if \; y_{iht} = 0 \end{cases}. \tag{2}$$

The index $TG(1)$ represents therefore, as equation [1] makes clear, the proportion of the total number of country pairs in which there is positive trade. $TG(1)$ ranges between 0 and 1, increasing with the level of trade globalization (evaluated exclusively through the number of positive bilateral trade flows).

The next measure evaluates the second dimension of trade globalization – volume of trade. This is the most diffused dimension of trade globalization, with vast evidence of its strong increase since the mid-1980s (see, for instance, Catão & Obstfeld, 2019; Obstfeld, 2020). Aiming to capture this element, the authors compare the total volume of trade in t with the volume of trade in a given year taken as reference (the first year in the time period considered). In order to capture this dimension, the authors first calculate:

$$V_t^* \frac{\sum_{i=1}^{I}\sum_{h=1}^{H} y_{iht}}{\sum_{i=1}^{I}\sum_{h=1}^{H} y_{iht-1}} \tag{3}$$

and then obtain:

$$TG(2)_t = V_t = V_{t-1} * V_t^* . \tag{4}$$

In the first year (in the case of the data used in this chapter, 1967), V_{1967}=1. As mentioned above, this corresponds to the unbounded dimension of trade globalization.

The third index of trade globalization captures, for the first time in the analysis being developed, the importance of distance. It takes *TG*(1) as departure point but gives less importance to flows occurring between closer countries. This index – *TG*(3) – is obtained dividing the distance associated with trade (i.e., the sum of the distances between country pairs in which there is positive trade) and the sum of the distances between all country pairs (with or without trade). Thus, the index evaluates the percentage of the total distance among all the countries in which positive trade occurs, being calculated as follows:

$$TG(3)_t = \frac{\sum_{i=1}^{I}\sum_{h=1}^{H} D_{iht} p_{iht}}{\sum_{i=1}^{I}\sum_{h=1}^{H} D_{iht}} . \tag{5}$$

in which D_{iht} means the distance between countries *i* and *h*. As occurs with *TG*(1) this index ranges between 0 and 1. The upper limit is reached when there is bilateral trade among all country pairs. Therefore, *TG*(3) increases with trade globalization. The joint consideration of *TG*(1) and *TG*(3) allow to identify the reasons for a given increase/decrease: number of flows, distance, or both.

Finally, the authors concentrate the analysis on the last dimension of trade globalization: the number of sectors. The key argument is that, *ceteris paribus*, trade globalization is higher when there are positive trade flows from a greater number of sectors. In order to capture this aspect, the sectors are defined by *q*(*q*=1,2,…,*Q*). The first step to obtain *TG*(4) is to calculate the average number of sectors involved in bilateral trade. This is defined as N_t and can be obtained as:

$$N_t = \frac{\sum_{i=1}^{I}\sum_{h=1}^{H} b_{iht}}{I(H-1)} . \tag{6}$$

in which:

$$b_{iht} = \sum_{q=1}^{Q} k_{ihqt} . \tag{7}$$

and

$$k_{ihqt} = \begin{cases} 1 \; if \; y_{ihqt} > 0 \\ \\ 0 \; if \; y_{ihqt} = 0 \end{cases} \tag{8}$$

Calculating the ratio between N_t and the total number of sectors included in the analysis (Q, it is possible to obtain the proportion of sectors with trade. This measure is designated as $TG(4)_t$.

$$TG(4)_t = \frac{N_t}{Q} .. \quad (9)$$

It is important to emphasize that the three bounded dimensions of trade globalization included in the conceptual framework range in the same interval: [0, 1]. The value 0 is obtained when there is no trade while the maximum value is reached when all sectors are traded in all bilateral relations.

Data

The empirical analysis conducted in the current chapter uses data from Chelem (provided by CEPII) and covers a period of fifty years (1967-2016). The analysis considers not only overall bilateral data for each of these years but also evidence at the sectoral level (manufacturing sector).[2] To that end, the authors consider ISIC at 4-digit level, which corresponds to 147 sectors. In order to calculate $TG(3)_t$ information about bilateral distances are also needed. These data are also retrieved from CEPII. The same occurs with the deflators required to obtain information in real terms.

The authors consider two different sub-periods: 1967-1990 and 1994-2016. This is needed due to the political changes occurred in Europe in the beginning of the 1990s. More specifically, it is necessary to take into account the disintegration processes occurred in Yugoslavia, URSS, and Czechoslovakia. For this reason, the authors consider a total of 72 countries in the first sub-period and 84 countries in the second one.[3] Taken together, they account for around 96% of world trade.

For each year of the first sub-period there are 148 matrixes (the matrix of bilateral trade flows in overall terms and 147 sectoral matrixes, also containing information on bilateral trade). Since, in this period, $I=H=72$ each matrix has 5,112 elements. In turn, in the second sub-period, $I=H=84$. Thus, each matrix has 6,972 elements. Taking all matrixes together and the whole period under consideration, this study considers around 43 million bilateral trade flows.

KEY EVIDENCE

Four Indexes of Trade Globalization

The conceptual framework proposed above includes four key measures of trade globalization, allowing to capture different facets of the phenomenon. In the current section, the authors evaluate the results obtained for each of these measures.

The analysis starts by considering the evidence for $TG(1)$ which only takes into account the number of positive bilateral trade flows (see Figures 1 and 2). Given the political changes occurred in the beginning of the 1990s, it is necessary to consider two independent Figures – the first one refers to the sub-period 1967-1990 while the second panel refers to the sub-period 1994-2016.

Figure 1. Trade Globalization (1967-1990): Number of Trade Flows

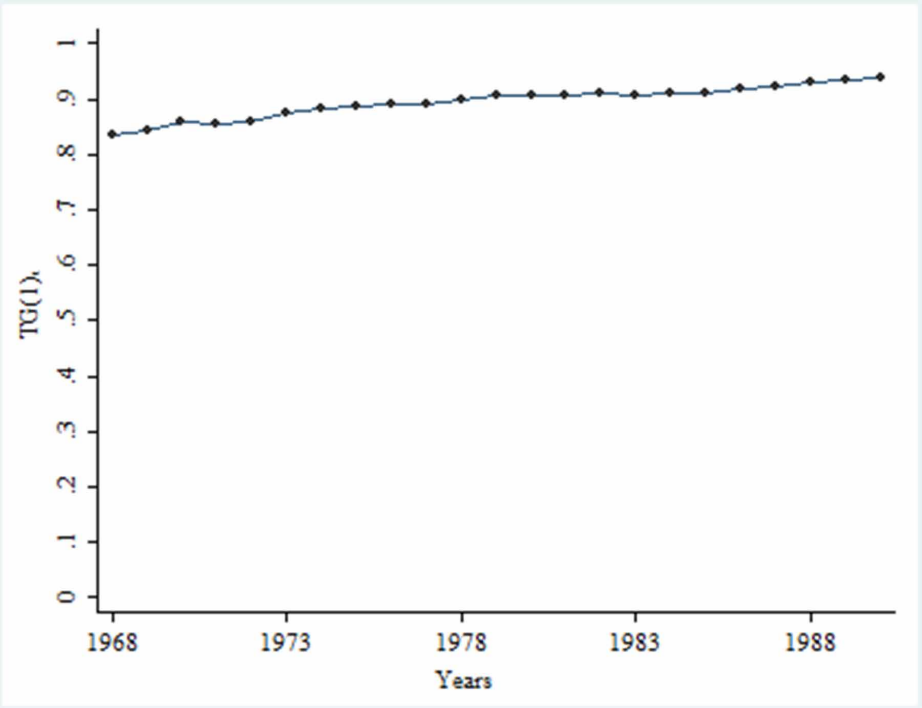
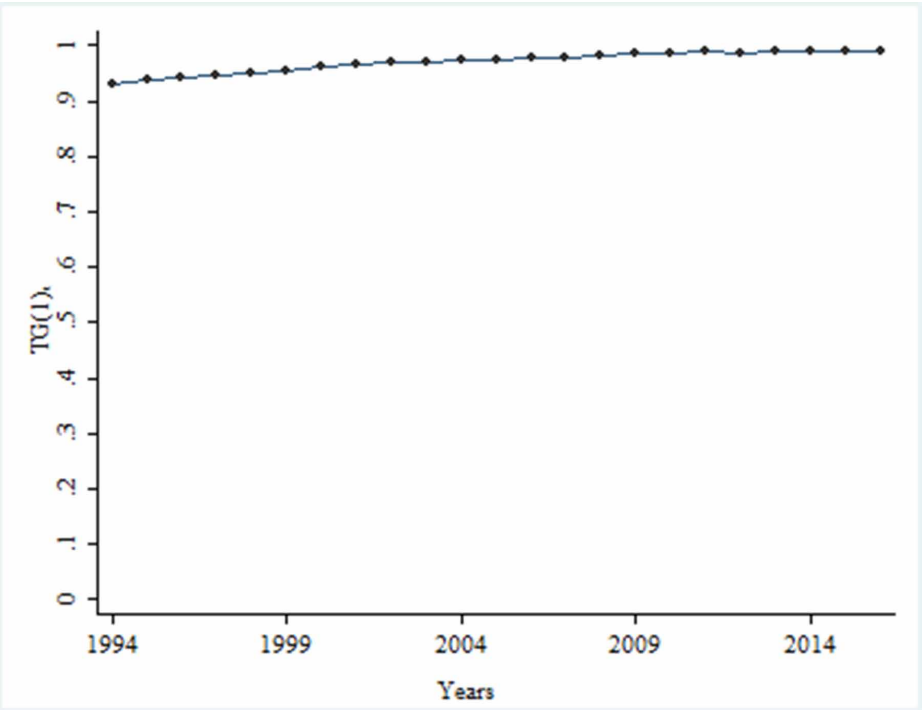


Figure 2. Trade Globalization (1994-2016): Number of Trade Flows



Regarding the evidence presented in Figures 1 and 2, some critical conclusions must be highlighted. First, the level of trade globalization evaluated through this first (simple) dimension was already very high (83.5% of the maximum) at the beginning of the period, which, of course, is connected with the fact that, in this approach, a trade flow exists for any positive value of trade. Thus, more important than the exact percentage in a given year, it is the evolution registered along the period that should be seen with special attention. Figures 1 and 2 clearly show that there is an increase in this level in almost all of the fifty years included in the empirical exercise. In fact, only in four years there is an opposite movement, with slight decreases in the percentage of bilateral relations with positive trade. Three of these years happen during the first sub-period, namely 1971, 1983, and 1985, while the most recent one occurred in 2012. The strongest decreases among these four cases occur in 1983 and 1971. In turn, the decrease registered in 1985 is the smallest one. Comparing the annual average growth rate in the two sub-periods, it is possible to verify that the growth is faster in the first sub-period (0.53% versus 0.29%). Analysing the results in more detail, the authors conclude that the most pronounced increase occurs between 1972 and 1973 ($TG(1)_{1972}$=0.8601; $TG(1)_{1973}$=0.8740). Finally, it also possible to conclude that $TG(1)$ is higher than 0.98 since 2008, almost reaching its upper limit ($TG(1)$=1) at the end of the period under scrutiny ($TG(1)_{2016}$=0.990).

What is the explanation to this increase in the level of world trade integration, evaluated through the proportion of positive bilateral trade relations? Looking in detail at the data, it is possible to conclude that, at the beginning of the period under consideration, only a small group of countries (Sweden, Finland, Japan, and United States) exported to all trade partners in the sample but, on average, each country exported to 59 countries (out of the 72 countries included in the sample). These numbers increase during the period, which is fundamentally due to the better integration of less integrated countries in the world trade web (e.g., Brunei, Gabon, Vietnam, and Cameroon). This trend is very clear, for example, in the 1980s. At the end of this decade, the first measure of trade globalization ($TG(1)$) reaches almost 0.94.

Due to the political instability of the first half of the 1990s, this measure shows a slight decrease from 1990 to 1994 but after that moment the positive trend was resumed. In the last year included in the analysis, 79% of the countries register positive trade with all the remaining ones and $TG(1)$ index reaches 0.990, showing that the opportunity to further increases in the level of trade globalization cannot be founded in this dimension since the current level is very close to the upper limit.

In what follows, the analysis focuses on the evolution of the volume of trade. This dimension is captured through the index $TG(2)$ the results are shown in Figures 3 and 4.

The very strong growth of world trade in the last decades is a well-known fact. This result is the most important evidence commonly used to support the idea that the current wave of globalization has started in the mid-1980s. The evidence in Figures 3 and 4 shows that a remarkable uprising trend is already visible before that period. However, it is also true that the average growth rate is remarkably higher in the second sub-period. The significant reduction, at the world-level, of several components of trade costs (including transport and communication costs, elimination of trade barriers, technological progress, among other factors) explain this evolution.

This positive trend of the trade volume at the world-level is largely consistent along the whole period, the most important exception being the Great Recession that has started in 2009 (WTO, 2018). This year – 2009 – is by far the one with the strongest decrease in the overall volume of trade. The other five years with negative growth are 1975, 1982, 1986, 2001, and 2015.

Figure 3. Trade Globalization (1967-1990): Total Volume of Trade

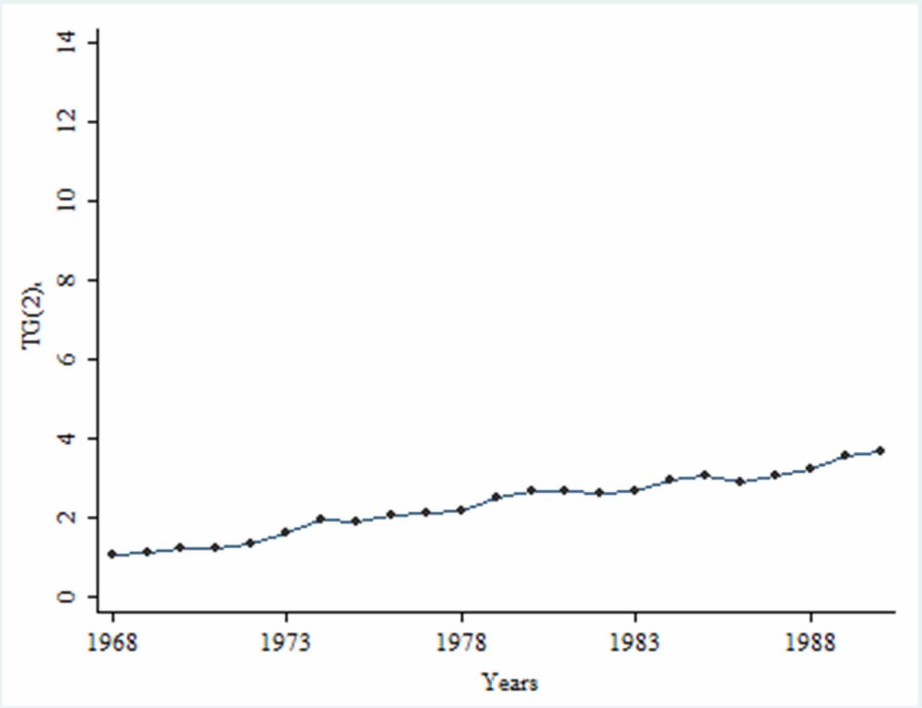
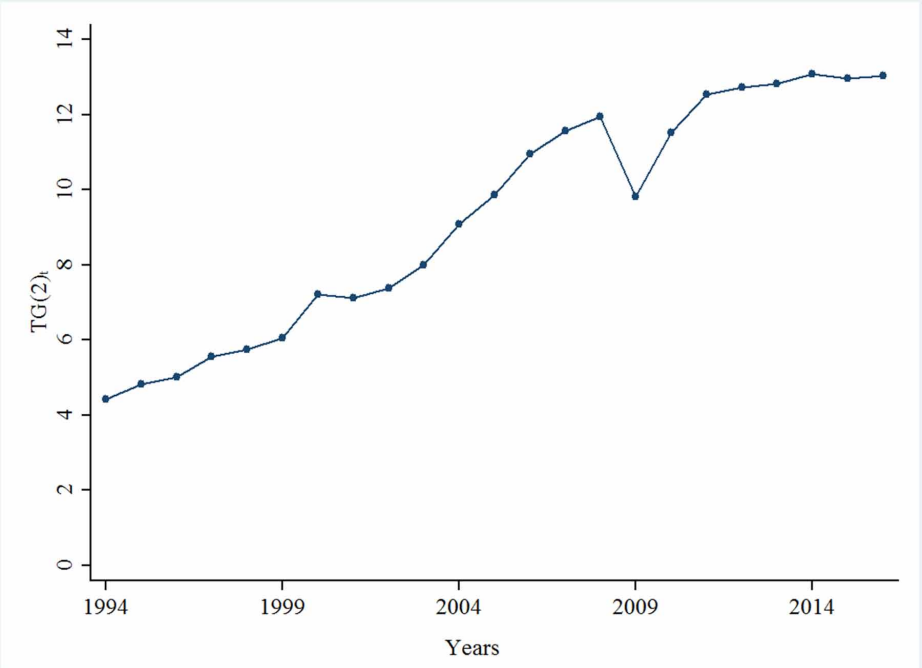


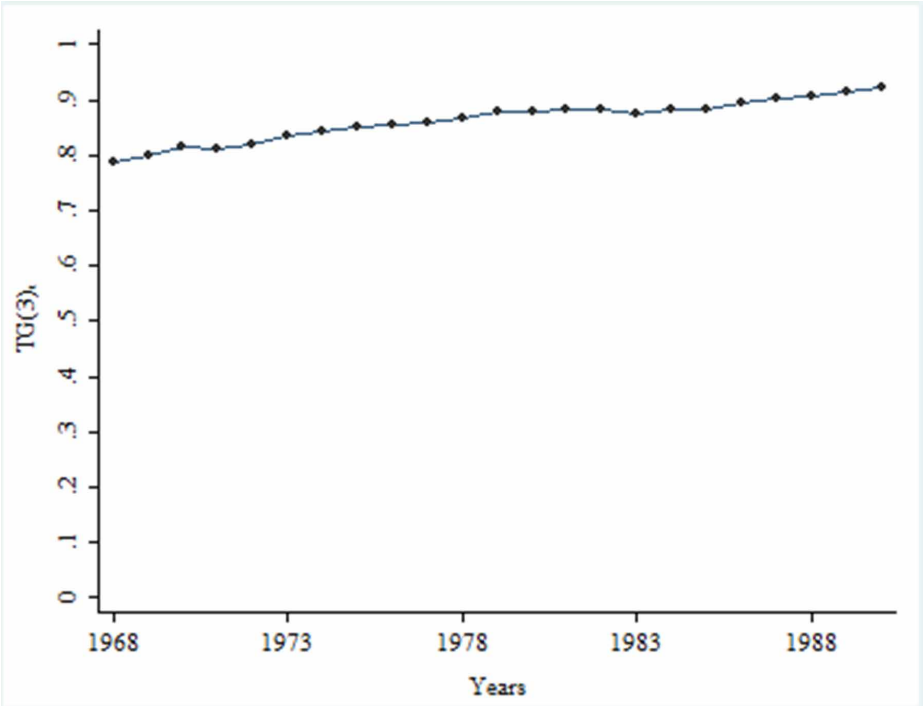
Figure 4. Trade Globalization (1994-2016): Total Volume of Trade



In conclusion, the evolution of this dimension of trade globalization – volume of trade – shows a strong upward trend during the period analysed and does not reveal until now any solid evidence of stabilization.

Once considered the unbounded dimension of trade globalization, the authors now return to the evaluation of its bounded dimensions. The index *TG*(3) retains the combined influence of distance and number of flows. Since this last dimension was already captured through the index *TG*(1) their joint analysis allow to infer the evolution of the distance as a dimension of trade globalization. Figures 5 and 6 show the results obtained.

Figure 5. Trade Globalization (1967-1990): Number of Flows and Distance



The impact of distance on trade is extensively debated in international economics. Some authors argue that distance is not a barrier anymore, that the "world is flat" and that the world can be seen as a "global village". On the contrary, other studies conclude that distance still matters and that the intensity of trade flows are stronger with closer partners, concluding therefore that the actual scenario in world trade relations is better described as the overlap of several levels of regionalization than through a real globalized structure of trade flows.

The evidence obtained for *TG*(3) allows to retain some useful conclusions. Starting with the numbers for the first year under analysis, the quantitative importance of trade globalization is higher when it is measured with *TG*(1) than when the index *TG*(3) is considered. This fact means that there is, at the beginning of the period under analysis, an overrepresentation of bilateral trade flows between close countries. Using data for 1968, it is possible to verify that $TG(1)_{1968}$=0.835 and *TG*(3)=0.786. The existence of a positive gap between these measures remains valid along the entire period but its magnitude is strongly

reduced over that period. Thus, the relevance of distance as a trade barrier diminishes in the last fifty years. As an additional measure, the authors calculate the proportion of total trade occurring between countries with a maximum distance of 1,000 km, 3,000 km, 5,000 km, and 7,500 km. In all cases, this proportion decreases, being the reduction stronger in the first two cases (around 5 p.p. in the second sub-period of time) and weaker in the last two cases (around 2 p.p. in the same period).

A final element that is important to consider in order to obtain a comprehensive perspective about the evolution of trade globalization is the number of sectors involved in trade. This corresponds to the fourth dimension of the conceptual framework discussed above. The evidence for this dimension is captured by *TG*(4) and the results are shown in Figures 7 and 8.

The evidence shown in Figures 7 and 8 is not only very interesting but also much less explored in the empirical analysis of trade globalization. At least, three critical conclusions can be retained. First, comparing with the previous indexes, trade globalization is significantly lower when the evaluation takes *TG*(4) as reference. Second, during the fifty years included in the sample there is remarkable increase of this dimension of trade globalization. While in first year considered this index does not exceed 0.218, it reaches 0.3 in 1980, 0.4 in 2001 and 0.5 in 2015. Third, despite this strong positive trend, there is still wide room for further improvements in the level of trade globalization.

Figure 6. Trade Globalization (1994-2016): Number of Flows and Distance

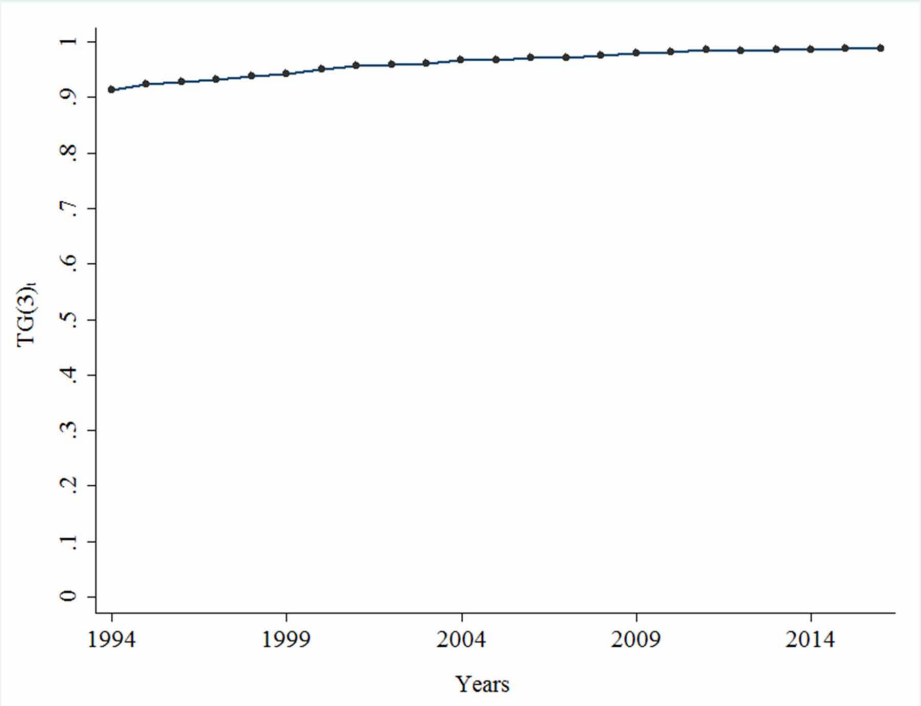


Figure 7. Trade Globalization (1967-1990): Number of Sectors Involved in Trade

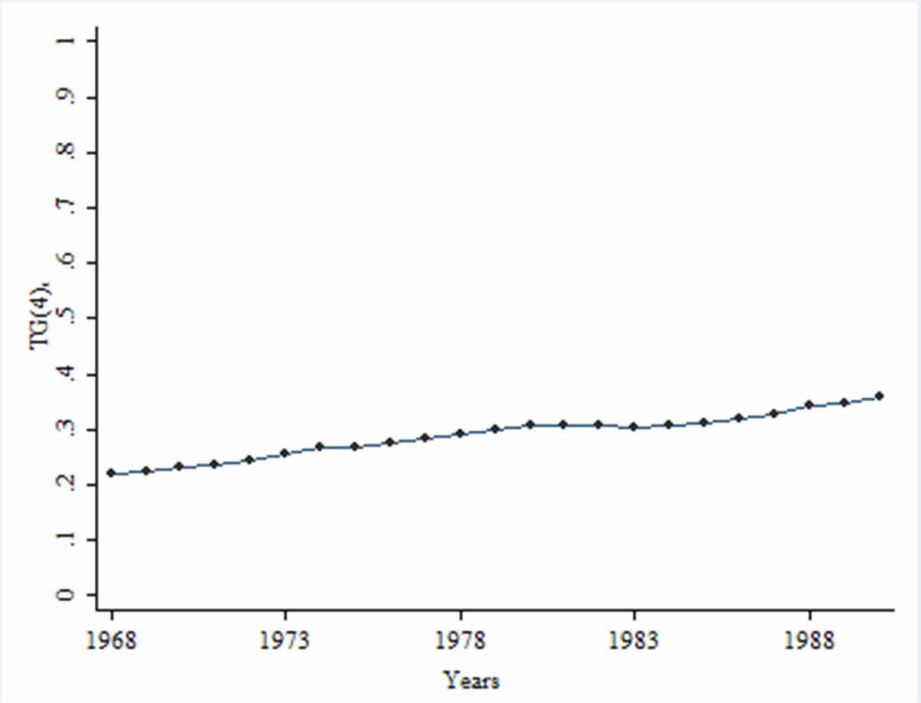
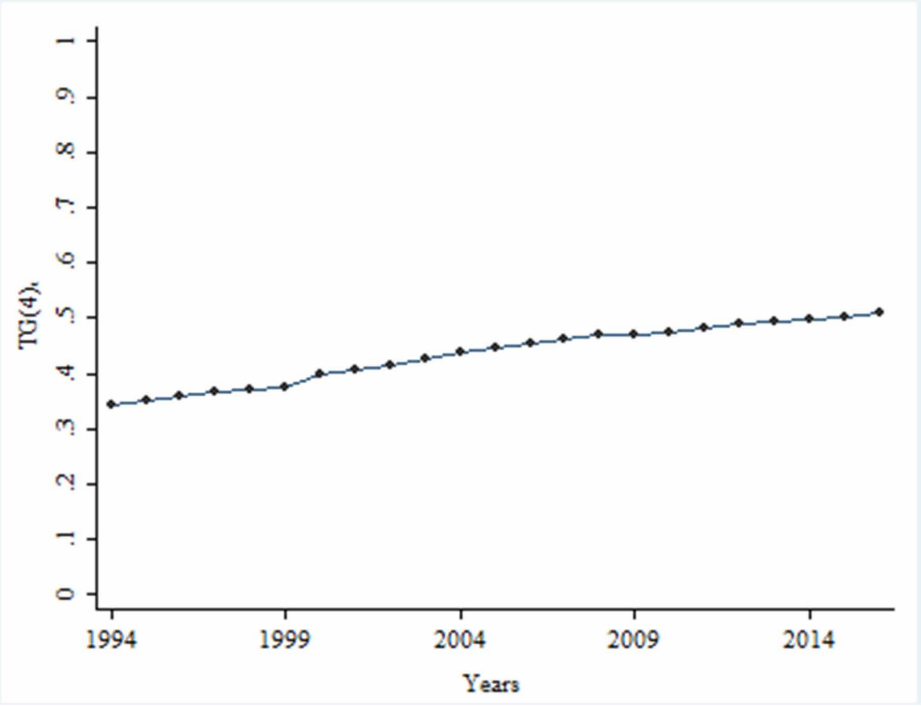


Figure 8. Trade Globalization (1994-2016): Number of Sectors Involved in Trade



Bounded Dimensions of Trade Globalization

As mentioned above, the conceptual framework proposed in this chapter and the evidence discussed above includes three bounded dimensions and one unbounded dimension of trade globalization. The inclusion of these bounded dimensions allows the comparison between the current level of trade globalization and the possible maximum. In order to obtain an integrated perspective, it is necessary to put together the three bounded dimensions. To that end, a fifth index of trade globalization is calculated. It can be obtained as follows:

$$TG(5)_t = TG(3)_t * TG(4)_t . \quad (10)$$

Given the results previously discussed, a consistent increase of $TG(5)$ was to be expected. The results confirm this and evidence is presented for the two sub-periods in the Figures 9 and 10.

During the first decades of our analysis, a positive growth occurs in all years with the exception of 1982 and 1983. The level of trade globalization increases dramatically when evaluated through its bounded dimensions: while, at the beginning of the period considered, $TG(5)_{1968}$=0.172 this value already reaches 0.331 in 1990.

Figure 9. Bounded Dimensions of Trade Globalization (1967-1990)

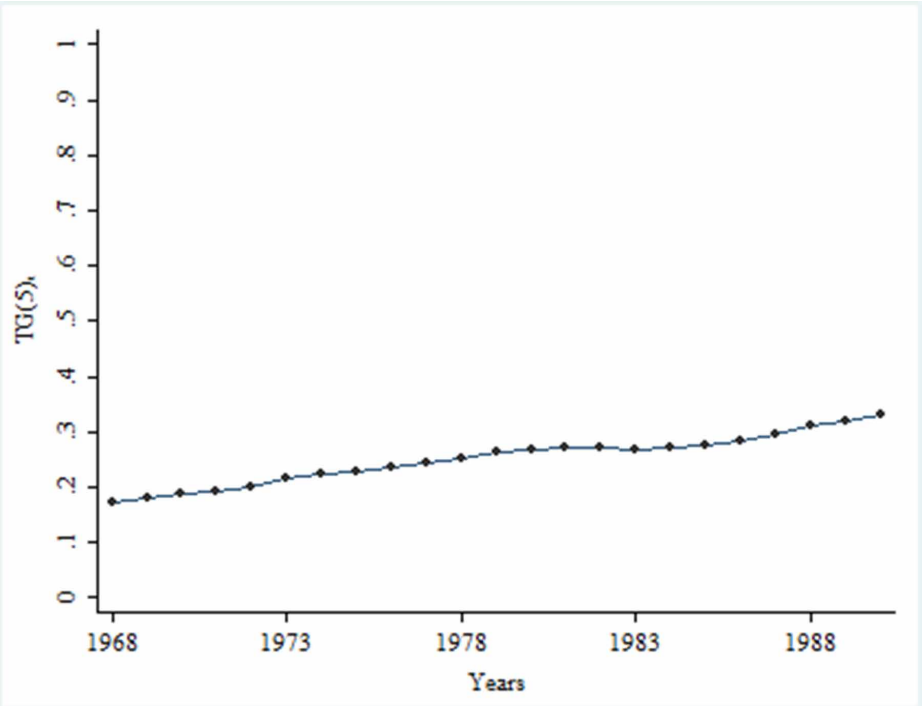
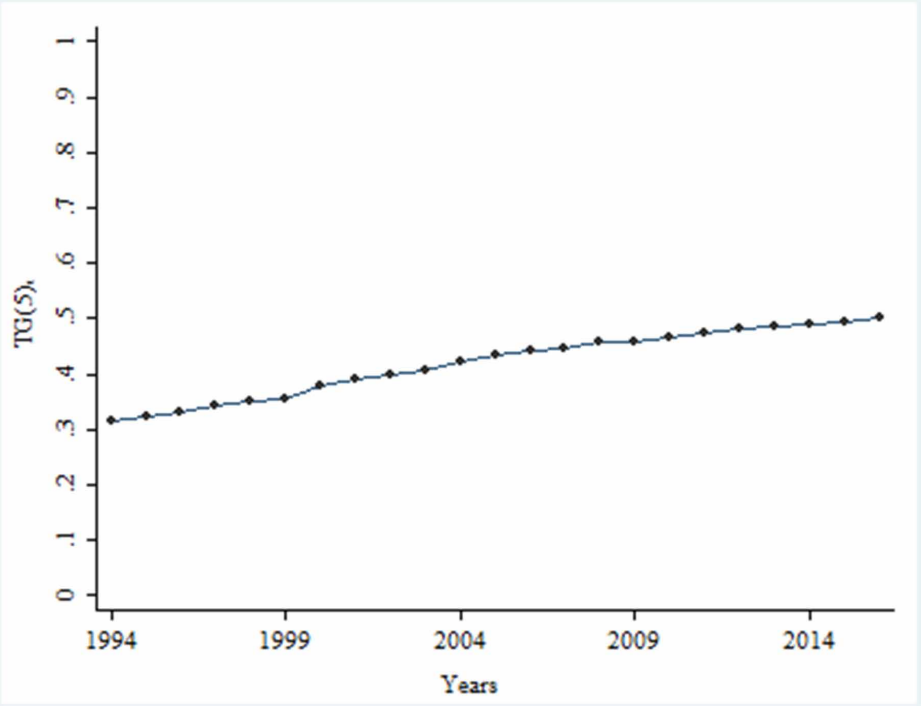


Figure 10. Bounded Dimensions of Trade Globalization (1994-2016)



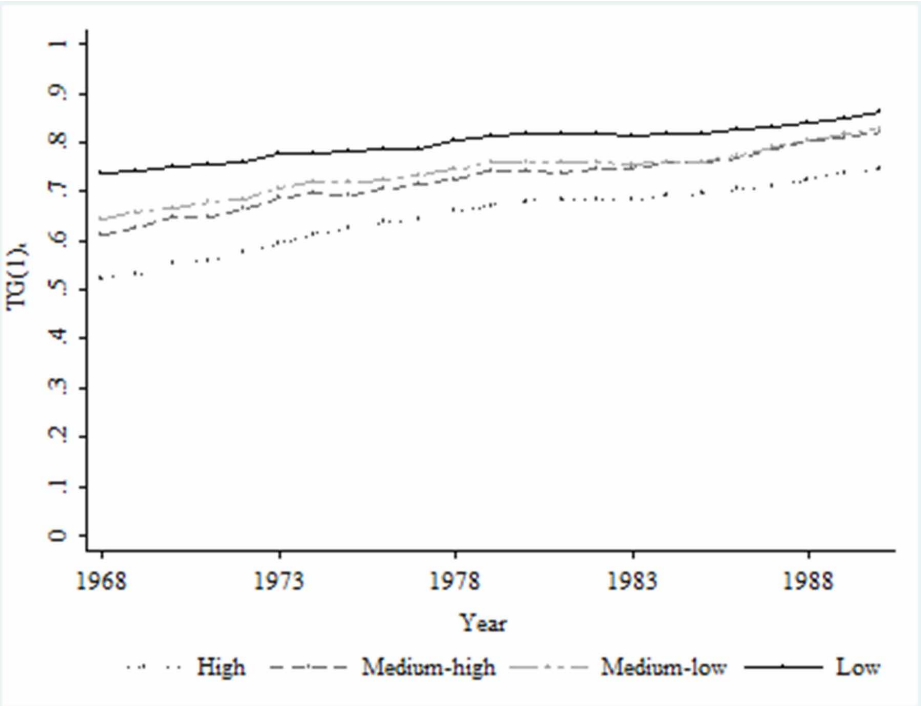
This positive growth trend also continued throughout the second sub-period and highlights the strong and continuous increases in trade globalization since the 1990s. Hence, in 2016, it is greater than 0.5 ($TG(5)_{2016}$=0.502). This last value however also clearly shows that trade globalization is not yet at its maximum and there is still enough potential for enhancing further globalization processes. While two of its bounded dimensions – trade flows and distance – show a very small room to increase, the same is not true regarding the sectoral dimension. Trade globalization can still increase through a more diversified sectoral participation of the different countries in world trade. This is a key message to retain from the quantitative evaluation of the phenomenon undertaken in this chapter. In this respect, digitalization could also boost trade globalization in sectors that have not yet fully integrated into global trade networks. On the other hand, trade wars resulting in higher tariffs and quota could even slow down trade globalization in future years.

Sectoral Evidence

Until now, the authors concentrated the analysis on the overall evidence, which include the four dimensions proposed in the conceptual framework (number of flows, volume of trade, distance, number of sectors). However, it is useful to complement that discussion with a short evaluation of the differences at the sectoral level. Since the disaggregated analysis for each of the 147 sectors that integrate the data is not feasible, in this chapter the authors opt to consider a simple sectoral taxonomy, which divides the sectors according with the intensity of R&D activities. Four categories are considered: high-technology, medium-high, medium-low, and low.

In order to evaluate the evolution of the level of trade globalization, the authors consider the basic dimensions above identified. Since the analysis is now conducted at the sectoral level, the authors are forced to exclude the fourth indicator. The evidence for the first three measures, capturing the number of trade flows, the volume of trade, and the distance and number of flows is presented in Figures 11 and 12 (number of flows), 13 and 14 (volume of trade), and 15 and 16 (distance and number of flows).

Figure 11. Sectoral Evidence: Number of flows (1967-1990)



Considering the results shown in Figures 11 and 12, it is visible the corroboration of the overall evidence presented in Figures 1 and 2. Thus, two key messages should be retained: (1) a general uprising trend of trade globalization, valid for all the four categories represented in Figures 11 and 12; (2) a very high level of trade globalization at the end of the period analysed. Additionally, low-tech sectors have the highest level of trade globalization (evaluated with this first index) while the high-tech sectors are characterized by the lowest level of trade globalization (along the entire period). Taking the last year as reference, the sectors showing the highest levels of trade globalization are plastic products, other fabricated metal products, and wearing apparel, except fur.

Considering simultaneously the evidence in Figures 11 and 12 and 15 and 16, it is also important to highlight the existence of a remarkable catching-up process of the high-tech sectors to the highly globalized low-tech sectors. These Figures demonstrate that globalization first occurs in sectors that have low requirements in R&D and are labour-intensive, such as the textile sector. It is in this kind of sectors that developing countries have a competitive advantage and first enter the world trade network. In Pakistan, for instance, more than 40 per cent of the labour force worked in the textile sector accounting for more

than 50 per cent of Pakistan's exports in 2016. Yet, as developing countries can diversify both production and exports, the share of low-tech exports decreases and the number of sectors that countries trade with increases. Overall, the export of high-tech sectors involves comparatively more capital investment and higher education. Therefore, the contribution of exports in these sectors evolve much more slowly than in low-tech and low-skill sectors. Figures 15 and 16 also demonstrate that the importance of distance as a barrier to trade decreases in these fifty years, independently of the type of sectors considered.

The most accentuated differences among sectors concern the evolution of trade volume. As shown in Figures 13 and 14, along the period under scrutiny there is a tremendous growth of trade volume (calculated in real terms) for the high-tech sectors, suggesting that the global value chains for these products are longer than for other sectors. While increases in trade volume are also visible for the other groups of sectors, they are much more moderate than occurs for the high-tech sectors.

Digitalization is expected to increase automation, substituting labor through machines and thus making the production of goods in high-wage countries more profitable again. This could then have major implications on the structure of global value chains. Over the last two decades, a central cornerstone of global value chains was that tasks of production which are labor-intense and require only low skills and a low degree of capital, have been transferred to countries that have a competitive advantage at producing low-cost. Even more so, as distance has become less important for international trade. Automation now could change the global picture regarding the competitiveness of low-wage countries and re-shape (trade) globalization especially in low-tech sectors. Thus, digitalization could have a reversal trend on sectoral globalization.

Figure 12. Sectoral Evidence: Number of flows (1994-2016)

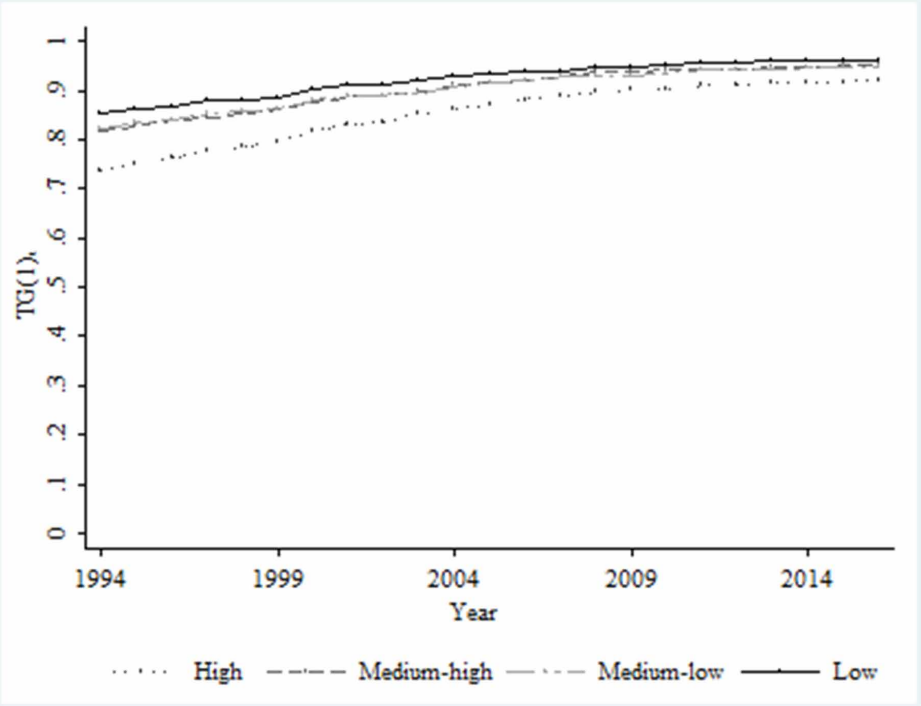


Figure 13. Sectoral Evidence: Volume of Trade (1967-1990)

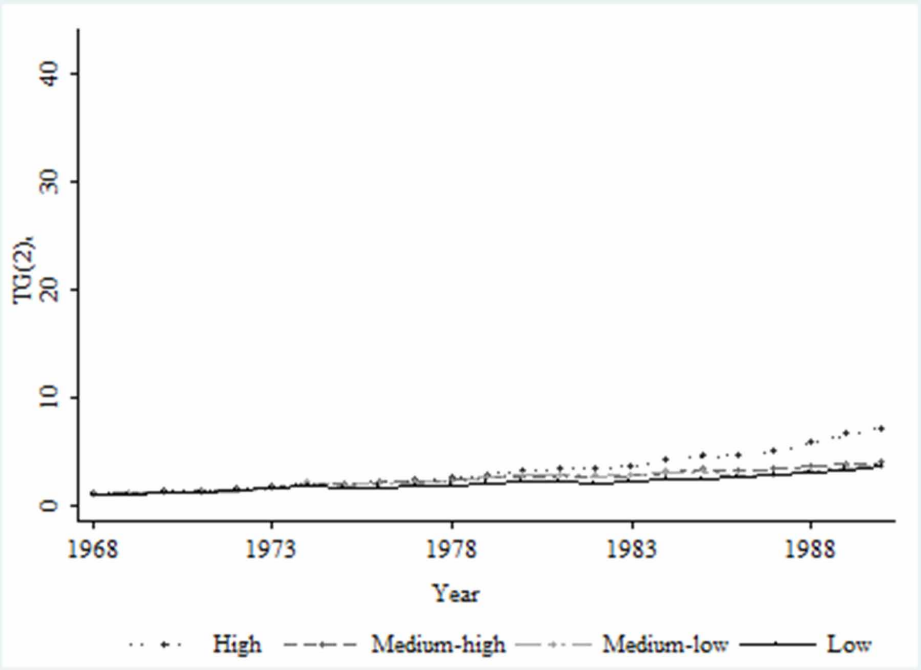


Figure 14. Sectoral Evidence: Volume of Trade (1994-2016)

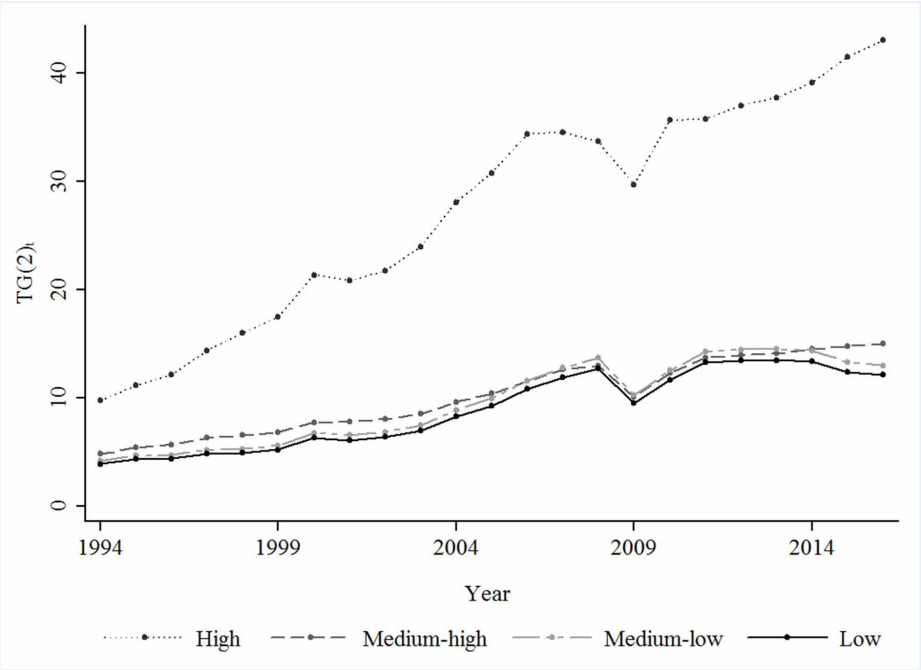


Figure 15. Sectoral Evidence: Distance and Number of Flows (1967-1990)

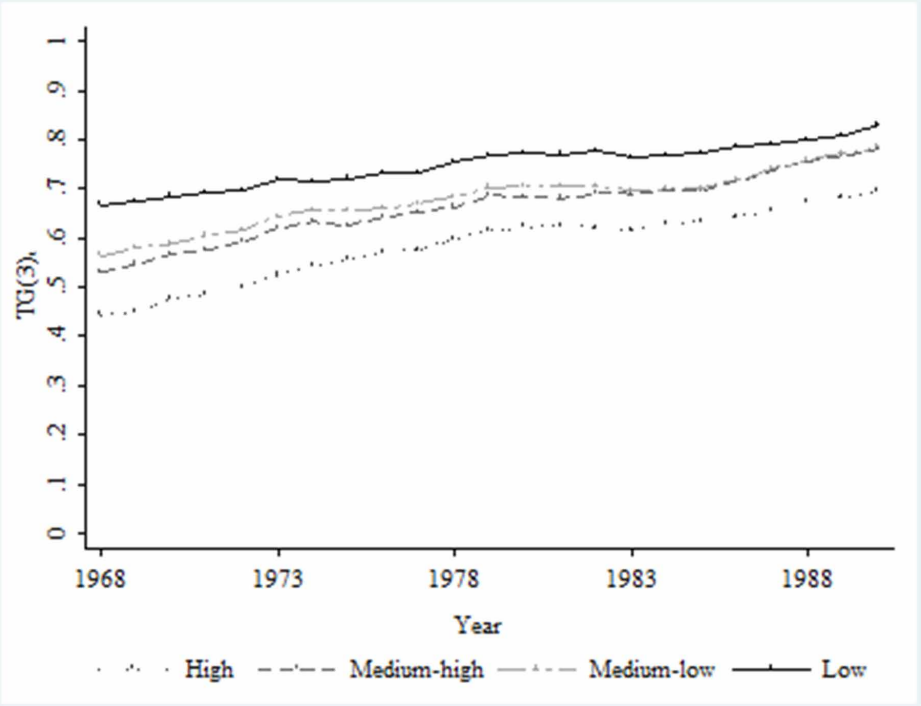
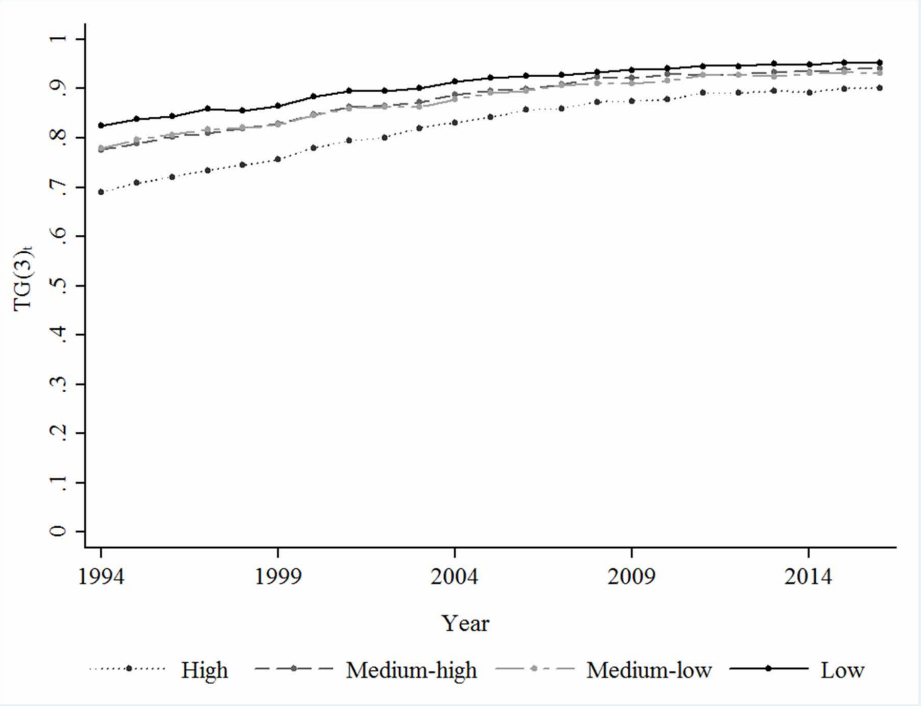


Figure 16. Sectoral Evidence: Distance and Number of Flows (1994-2016)



Butollo (2020) however suggests that there is not a clear trend towards re-shoring from low-wage Asian countries to high-wage European countries and the US. Even though digitalization and the advantages of closer producer-consumer proximity can affect the competitiveness of firms and location decisions of production, technological change does not make global value chains entirely obsolete. However, recent research has already shown that new digital technologies can influence the nature of global value chains and global production networks for a wide range of sectors (Foster & Graham, 2017; Sturgeon, 2017). Andersson, Berg, Hedrich, and Magnus (2018) for instance point out that in the textile sector, the cost of labor in production was the most central argument for the location of a company. Yet, with regional flexibility to react to customers‘ demand and automation making production more profitable in high-wage countries again, reshoring many activities from low-wage countries such as Bangladesh, Pakistan and China could become the new reality – even more so in times when the insecurity about the well-functioning of international value chains during a pandemic is shaping location decisions. Yet, Butollo and Lüthje (2017) also point towards the potential catch-up of developing countries with respect to automation and digitalization, hence making reshoring less likely as not only advanced economies but also countries like China learn to make full potential of new technologies.

FUTURE RESEARCH DIRECTIONS

As highlighted by the empirical results in the previous section, (trade) globalization is a multi-dimensional phenomenon and, as such, should be studied using a set of indicators rather than by one proxy alone. Yet, almost equal attention as to choosing a variety of indicators should be given to the effort of capturing the interrelatedness of countries in order to understand globalization proper. For that endeavor it is beneficial to analyze the importance of distance as well as the number of sectors involved in global trade networks. Regarding these two indicators, digitalization is likely to have significant impact and will likely continue to do so in the future.

This chapter has already shown that applying a set of indicators is beneficial for shedding more light on the driving factors of (trade) globalization. Therefore, future research could focus on incorporating additional factors. Yet, it should be made sure that indicators are able to capture globalization proper rather than studying internationalization of individual countries in isolation. More data on digitalization, trade in data and information and the adaptation of digitalization of individual countries could be advantageous research directions. This is even more so as the organization of trade itself can become ever more paperless, reducing burden for small firms to take part in international trade as complex trade-related documents can more easily be handled electronically (World Economic Forum, 2017). Thus, the potential to decrease trade costs by further technological progress should be tackled in further studies.

One further effect of digitalization and automation could be on the location decisions of firms. This, in turn, could affect countries that trade with one another as well as the total amount of trade. Future research could thus also shed more light on the question whether a new paradigm of higher localization and regionalization has occurred due to higher degrees of uncertainty in international trade (due to political and health crisis) as well as due to the fact that technological change regarding digitalization has been much more pronounced in advanced economies. Thus, global value chains could prove to be more fragile than regional value chains, thus having a dampening effect on globalization proper. Moreover, in low-tech sectors such as textiles, time has become an ever more important factor for trade thus making

distance a more important factor again and automation making producing countries closer to high-wage customer markets such as Mexico and Turkey more competitive again (Andersson et al., 2018).

Additionally, digitalization could increase trade in services significantly, making it more important to study not only the global trade in manufacturing goods but also of services and to which extent there are differences between these two categories of trade. Yet, by incorporating data on digitalization and services directly, there is a trade-off with the time span that can be analyzed as well as the set of countries under study and thus the new insights that can be taken from future research.

CONCLUSION

This chapter showed that trade globalization is a multi-faceted phenomenon that should not be analyzed only by the evolution of trade volume. The authors highlighted the importance of incorporating additional factors to gain a deeper understanding of the trade globalization processes. In this context, the current study proposed a conceptual framework that includes four dimensions of trade globalization: number of positive trade flows, volume of trade, distance, and number of sectors involved in trade. Moreover, this chapter focused on elaborating the advantages of studying trade globalization from a truly global perspective rather than analyzing internationalization tendencies and aggregating these developments to a global index.

The results show significant increases in all dimensions of globalization, despite substantial differences between the measures, highlighting the need to analyze globalization with a comprehensive set of indicators. Regarding the number of positive bilateral trade flows, globalization was already high at the beginning of the period under study and is almost completed by 2016. The importance of distance as a trade barrier also diminished throughout the period analyzed, but neighboring countries still share stronger trade relations.

An important advantage of the framework introduced in this study is the separation between bounded and unbounded dimensions of trade globalization. This allowed to verify that trade globalization is very close to its upper limit in what regards the number of positive trade flows and distance but a wide room for further increase is still open concerning the number of sectors involved in trade.

The replication of the empirical analysis for a specific taxonomy of sectors indicates that trade globalization for high-tech sectors varies significantly from the evolution seen in other sectors, especially large, low-tech sectors. The latter tend to show the highest level of trade globalization over the whole period, but the former group could catch up considerably. Analysing trade globalization with the help of trade volume in goods, the impact of the Great Recession in 2009 on trade volume is remarkable. Whereas trade globalization thus has slowed down (but did not reverse) measured by this one criterion, sectoral trade globalization did only decline for low-tech and medium-low tech sectors. Regarding the number of sectors that were involved in international trade, the positive growth trend also continued in recent years.

It remains open, however, which long-term effects the latest protectionist trends will have on the evolution of trade globalization. As tariffs and quotas have been re-introduced, this could not only have an impact on trade volume but also on the sectoral component of trade globalization. Moreover, the worldwide health crisis due to Covid-19 is expected to lead to an even larger recession in 2020 compared to the recession in the course of the financial crisis of 2008/2009. Declining private demand, a high level of insecurity, restriction in traveling as well as uncertainties regarding the well-functioning of global value chains could lead to re-locations of production. More and more governments also state to intend

reallocating the production of essential goods in order to be less dependent on international markets. Yet, both slowbalization as well as de-globalization trends could be only short, transitionary processes if the advantages of global value chains outweigh their disadvantages again. In this respect, the role of automation and digitalization on location decisions could also play an important role.

Altogether, it is too soon to reach conclusions whether the short-run dynamics that de-globalization and slowbalization of some measures of trade globalization will also change the underlying structures of globalization developments in the long run. Moreover, diverging trends regarding sectoral trade globalization are also possible due to the variety of influencing factors ranging from wage differentials, automation probabilities to tariffs and quota regimes.

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ENDNOTES

[1] Arribas, Bensassi, and Tortosa-Ausina (2020) recently presented a new study following the same methodological approach.

[2] It is important to emphasize however that even considering that trade in services has increased in the last years, it accounts for no more than 21% of total trade in 2017. The projections for 2030 suggest that this value will increase to around 25% meaning, therefore, that the data considered in this empirical exercise account for a very large proportion of world trade, as illustrated by the WTO (2018).

[3] Countries included in the analysis in the sub-period 1967-1990: Albania, Algeria, Argentina, Australia, Austria, Bangladesh, Belgium, Bolivia, Brazil, Brunei Darussalam, Bulgaria, Cameroon, Canada, Chile, China, Colombia, Cote d'Ivoire, Cyprus, Denmark, Ecuador, Egypt, Finland, Former Czechoslovakia, Former USSR, Former Yugoslavia, France, Gabon, Germany, Greece, Hong Kong, Hungary, Iceland, India, Indonesia, Ireland, Israel, Italy, Japan, Kenya, Libyan Arab Jamahiriya, Luxembourg, Malaysia, Malta, Mexico, Morocco, Netherlands, New Zealand, Nigeria, Norway, Pakistan, Paraguay, Peru, Philippines, Poland, Portugal, Romania, Saudi Arabia, Singapore, South Korea, Spain, Sri Lanka, Sweden, Switzerland, Taiwan, Thailand, Tunisia, Turkey, United Kingdom, United States, Uruguay, Venezuela, and Viet Nam. Countries included in the analysis in the sub-period 1994-2016: Albania, Algeria, Argentina, Australia, Austria, Bangladesh, Belarus, Belgium, Bolivia, Bosnia and Herzegovina, Brazil, Brunei Darussalam, Bulgaria, Cameroon, Canada, Chile, China, Colombia, Cote d'Ivoire, Croatia, Cyprus, Czech Republic, Denmark, Ec-

uador, Egypt, Estonia, Finland, France, Gabon, Germany, Greece, Hong Kong, Hungary, Iceland, India, Indonesia, Ireland, Israel, Italy, Japan, Kazakhstan, Kenya, Kyrgyzstan, Latvia, Libyan Arab Jamahiriya, Lithuania, Luxembourg, Macedonia, Malaysia, Malta, Mexico, Morocco, Netherlands, New Zealand, Nigeria, Norway, Pakistan, Paraguay, Peru, Philippines, Poland, Portugal, Romania, Russian Federation, Saudi Arabia, Serbia and Montenegro, Singapore, Slovakia, Slovenia, South Korea, Spain, Sri Lanka, Sweden, Switzerland, Taiwan, Thailand, Tunisia, Turkey, Ukraine, United Kingdom, United States, Uruguay, Venezuela, and Vietnam.

Chapter 2
How Does Globalization Relate to Corruption?

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ABSTRACT

The interactions between globalization and corruption do not seem to be consensual because, in addition to the complexity inherent in measuring these variables, there are a number of different channels that can generate contradictory effects. As such, the analysis this chapter proposes to develop will take into account the results of studies that point to the non-linearity of the relationship between corruption and globalization. In doing so, the chapter inserts in the analysis new dimensions on the measurement of globalization and, also, the levels of economic development of the wide sample of countries considered in this study. This methodology makes it possible to verify that the relationship between globalization and corruption depends on the country's level of development.

INTRODUCTION

Globalization is a comprehensive concept that results from the gradual strengthening of the interaction of economic activities on a global scale, observed in the solid dynamism of the flows of goods, services and factors of production. In general, such flows are seen as beneficial for economies, allowing the spread of technological progress and a better allocation of resources at the global level. However, possible harmful effects of globalization on other social dimensions have also deserved wide dispute, causing political movements that recover arguments from protectionism and nationalist populism.

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Indeed, globalization is a multi-dimensional phenomenon, i.e. it involves economic, social and political aspects, and it is also something that the countries themselves promote and/or results from the inevitable connection of any country, however closed, with other countries. In fact, this multi-dimensional view is well evident in one of the most used indicators to measure globalization, which is the KOF Globalization Index. Among those dimensions, one that seems to us of particular interest is the one that is related to the role of institutions, with regard to the perceived level of corruption, in each country.

Corruption is recognized as a crucial issue in the interaction between globalization and economic development, in a broad conception of it that involves, in addition to economic growth, features such as access to health and education. The main argument is that corruption penalizes economic development, as it limits citizens' access to essential goods and services, imposing social costs. Also, at the economic level, corruption does not promote an optimal allocation of resources, and may reduce investment flows and distort their quality. However, there are authors who argue that corruption can, indeed, benefit development, especially as a facilitator of commercial transactions in restrictive regulatory contexts, helping to overcome bureaucracy and promoting investment.

As for the relationship between globalization and corruption, the dominant line suggests that globalization reduces corruption because trade partners and international institutions impose rules and control mechanisms. Thus, greater international involvement puts pressure on countries to carry out structural and institutional reforms, such as liberalizing markets, assuring property rights, increasing transparency in decision-making processes and improving the quality of public services, reinforcing the country's attractiveness in trade and investment. In this context, it is understandable that corruption is lesser in countries that are more economically open and integrated in a greater number of international institutions.

However, there is literature that supports that corruption potentiates globalization, especially in low (per capita) income countries, where foreign direct investment flows linked to corruption become attractive due to the high 'incomes' they generate for their stakeholders. Other authors also recognize that corruption can improve countries' exposure to international trade, when it contributes to circumvent regulations and administrative restrictions, such as in the case of the imposition of 'quotas' on imports.

In short, the interactions between levels of development, globalization and corruption do not seem to be consensual, because, in addition to the complexity inherent in measuring these variables, there are a number of different channels that can generate contradictory effects. As such, the analysis we propose to develop will take into account the results of studies that point to the non-linearity of the relationship between corruption and globalization, inserting in the analysis new dimensions on the measurement of globalization and, also, the levels of economic development of the countries considered.

The rest of the chapter has the following structure: first, the literature review is presented; the materials and methods section follows; thirdly, the relationship between the levels of corruption and globalization, for a wide range of countries, in the period 2012-2017, is analyzed; the section on recommendations and directions for future research follows; the last section presents the conclusions.

LITERATURE REVIEW

The search for the determinants of corruption and its effects on welfare has been the subject of wide and varied theoretical and empirical research (Dimant and Tosato, 2018; Madanipour and Thompson, 2020). It is widely accepted in the literature that high economic revenues, especially in the natural resource exporting sectors, have led to an increase in corruption. Moreover, the ways of detecting corruption seem

to be all the more effective as institutions, political systems are strong and democratic, and freedom of the media and a highly educated population also limit corruption (Badinger and Nindl, 2014). Thus, the behaviors to obtain economic revenues and the ways to control corrupt practices are relevant, and it is on these aspects that we will review the literature that supports the empirical application.

In general, the level of corruption is considered to result from the functioning of legal, economic, cultural and political institutions in any country. These factors, crucial to the quality of political institutions and regimes, directly and indirectly affect the level of corruption. As a result, the determinants of corruption are profusely addressed in the literature on democracy and institutional quality (Svensson, 2005). For the particular case of the relationship between corruption and political risks see Filipe et al. (2012) and Filipe and Ferreira (2018).

Some research has focused on the role of globalization as a decisive factor in institutional quality. An analysis strand emphasizes the pro-competitive effects of opening countries to international trade. Ades and Di Tella (1999) argue that the opening of trade promotes a decrease in corruption, since competition from imports reduces the revenues of domestic firms and, therefore, limits the benefits of corrupt activities. Those authors also sustain that, alongside import flows, the presence of the main world exporters reduces corruption, while petrol and mineral export activities tend to increase it, seeing in these results the proof that foreign competition reduces revenues from domestic companies, which is reflected in the decline of corruption. A positive effect of rents on natural resources on corruption was also recognized by Bhattacharyya and Hodler (2010) in a study of 124 countries in the 1980-2004 period.

The effect of competition on reducing corruption is not limited to international trade. In fact, greater competition may also result from the deregulation of the internal market and from policies that facilitate the process of business internationalization (Svensson, 2005). Thus, trade can capture only part of the competition's impacts on corruption and the effects are ambiguous. Therefore, financial openness, another facet of economic globalization, has also been addressed in studies on the link between globalization and corruption. In reality, the increase in Foreign Direct Investment (FDI) and the entry of foreign companies in domestic markets increase competition. In fact, investing abroad generally requires some kind of public license, so in countries with greater corruption it is possible to obtain this permission may be requiring some kind of bribe, raising the cost of investment and reducing levels of FDI. It is justifiable for firms to choose not to engage in corrupt practices and to avoid investing in these countries.

The empirical study by Campos et al. (1999) used data from 1997 and found evidence to support the idea that higher levels of corruption were clearly linked to lower levels of FDI. Also Caetano and Caleiro (2009), that apply the fuzzy logic methodology to a wide range of countries, using data on the ability to attract FDI countries and the level of perceived corruption in the countries, conclude that there is a significant impact of corruption in reducing FDI in highly corrupt countries, while in countries with low levels of corruption, the effects of attracting FDI are reduced. An exception to this kind of relationship between corruption and FDI is the study by Egger and Winner (2005), where the results support a clear positive relationship between corruption and FDI. More recent studies such as those by Al-Sadig (2009) and Mathur and Singh (2013) confirmed the negative relationship between corruption and FDI.

Taking globalization as a whole, Das and DiRienzo (2009) use the KOF globalization index as an aggregate measure of globalization and the Corruption Perception Index and show that only countries with moderate levels of globalization can obtain benefits from their greater global insertion. The results indicate a non-linear relationship between globalization and corruption, which was dealt with later in the literature. Lalountas et al. (2011) in an analysis of 127 countries concluded that globalization reduces corruption in medium and high-income countries, with its effect being little in low-income countries.

Specifically, the positive association between those variables is proven, only when it is assumed that there is a linear relationship in endogenous variables, especially in GDP per capita. In other words, linearity is not the rule, leading to the acceptance that there is no link between globalization and corruption. This seems to be unseemly, as linearity exists, but only for medium and high-income countries. Therefore, in these countries, greater participation in the global market increases the opportunity for corrupt practices, due to the existence of deficient regulatory environments.

Although the literature already assumed the non-linear causality between globalization and corruption, the results confirm the different effects in those two groups of countries, so ignoring these divergences does not contribute to effective anti-corruption policies. Thus, the belief that globalization can fight corruption, must be weighed against the type of countries. It is accepted that for the poorest countries the emphasis should be placed on the economic dimension of globalization. Understanding globalization as a mechanism to reduce corruption in developing countries can lead to inappropriate policies. On the contrary, for countries with high income levels, the political and social dimensions of globalization should be privileged, as mechanisms of control over the phenomenon of corruption.

Corruption can also be perceived as a general indicator of institutional quality, which justifies reviewing the literature on the liaison between globalization and democracy to identify possible determinants of corruption. At the center of analysis is the seminal work of Acemoglu and Robinson (2005) on the role of inequality. For the authors, the emergence and survival of democracy depend on the distribution of income and, therefore, on the prices of production factors, so that economic globalization affects democracy and institutional quality through the effect it has on these prices.

Hecksher and Ohlin owe the foundations of the neoclassical model of international trade that includes the endowment of two productive factors; see Leamer (1995) for a description of this model. It is therefore suggested that if a certain production requires a lot of labor and if the country is highly endowed with this production factor, it should specialize in that production.

Following Stolper and Samuelson (1941) consider that goods have different factor (labor and capital) intensities and that countries have different factor allocations, predicting the existence of a univocal relationship between product prices and factors. For a more recent analysis of the, so-called, Stolper-Samuelson effect see, for instance, Deardorff et. al. (1991).

The rise in the relative price of labor-intensive goods favors its yields and, instead, penalizes the capital factor. In an ideal world, free trade would lead to equalization in the prices of goods and factors of production, but the persistence of barriers to trade, transport costs and technological differences between countries prevent such convergence from taking place. In this model, if the developing countries are abundant in labor, the opening of trade leads to an increase in wages, which reduces the difference in income between the factors and, therefore, the risk of political conflict. As a result, democracy becomes less threatening to high-income groups that control the economic and political system. Thus, the ultimate effect of globalization on democracy (and consequently on corruption) will be an empirical issue.

The outcomes of this analysis were tested by several authors, namely Lopez-Cordova and Meissner (2008), for the long period of 1870-2000, which confirm the existence of this positive relationship between foreign trade and the quality of institutions. However, most studies do not consider simultaneously the trade and financial opening and explicitly do not take into account the role of inequality as a transmission channel between globalization and corruption.

The upright functioning of the institutions generates diverse benefits for the different economic agents. Therefore, when two countries with similar technology and different institutional quality open to trade, institutional quality will tend to improve in both countries, as revenues are being reduced in the country

with poorer institutions. However, if the technological differences between countries are significant, the patterns of specialization do not change and trade may not reduce these revenues and, consequently, does not provide incentives for institutional improvement. Levchenko (2011) considers the role of institutions as a determinant of countries' comparative advantage in international trade and shows that the effects of globalization on institutional quality may vary between countries.

To sum up, from the literature it became evident that the interactions between globalization, inequality, institutional quality and corruption are multiple and complex. In order to systematize this interaction, it is opportune to review some of the links between democracy and corruption, while the majority of theoretical models assuming a negative link, since a more consolidated democratic system will tend to reduce corruption. A positive effect of globalization on democracy can translate into a fall in the level of corruption. However, such a relationship is not irrefutable, and the empirical evidence is mixed. For instance, Rock (2009) concludes that there is an inverted U-shaped relationship between democracy and corruption. The turning point would occur quite early in the new democracies. Therefore, as recent democracies are the exception and not the rule, it was expected that their effect on corruption would be dominant, so that the logic implicit in the globalization/democracy nexus can be tested empirically, expecting for a non-effect linear relationship between globalization and corruption.

The literature strongly suggests that globalization may have different effects on the levels of corruption, justifying the existence of a non-linear or inverted, U-shaped, relationship between these dimensions. It is argued that at lower levels of globalization, countries have less regulation and are less integrated into the global economy, so that when they become involved in the globalization process, levels of corruption increase at an early stage. The new trade relations provide opportunities for corrupt practices, and it is plausible that emerging countries are involved in these practices, while seeking to create a more competitive domestic environment, often under pressure from international organizations that compel them to comply with anti-corruption policies and demand more transparency.

Empirical arguments and evidence were presented on the link between globalization and corruption, which we can summarize in the articulation of three aspects. The first focuses on activities that seek to obtain income due to restrictions on imports and that provide chances for corruption. The second acts by reducing competition, where the market structure in each country determines the intensity of corruption, which can generate ambiguous effects on it. On the one hand, the higher revenues resulting from low competition create chances of corruption and, on the other hand, it becomes more valuable for a society to increase control over its administration. Therefore, the net effect of these trends on corruption depends on political options. The last aspect links globalization to institutional quality, being crucial to improve the quality of institutions and their capacity to fight corruption, which depends on the resources that society affects to this end. If a society invests in high quality institutions, the greater the benefits it obtains from attracting external firms, which can divert trade and investment flows between markets, depending on the type of governance.

The differential effect of corruption thus induces strong incentives to invest in robust institutions for open economies, since the benefits resulting from increased exposure to international markets will surely be greater than the costs to fight corruption. Thus, for Asongu (2014) the concept of human development is a mechanism through which the different aspects of globalization affect the quality of governance and its impact on corruption, which, of course, will not be linear.

MATERIAL AND METHODS

With regard to globalization, data from the "KOF Globalisation Index" (KOF GI) will be used, the source of which is the KOF Swiss Economic Institute (https://kof.ethz.ch/en/forecasts-and-indicators/indicators/kof-globalisation-index.html ; accessed on January 20, 2020). The KOF GI is one of the most used indicators of globalization. Being of a composite nature, it covers the economic, social and political dimensions. More recently, the *de facto* and the *de jure* dimensions were considered, which measure, respectively, the actual international flows and activities, and the policies and conditions that, in principle, affect those flows and activities. See Gygli et al. (2019).

In what concerns corruption, data from the "Corruption Perceptions Index" (CPI) will be used, the source of which is the Transparency International Database (https://www.transparency.org/ ; accessed on February 08, 2020). The CPI is one the most widely used indicators of corruption worldwide. It is a composite index, which combines 13 surveys and assessments of corruption, in order to score and rank countries or territories, based on how corrupt the correspondent public sector is perceived to be, by a variety of reputable institutions.

Data for the Human Development Index (HDI is also used. The HDI is a composite index, that combines 3 dimensions that influence development, namely life expectancy, education, and per capita income indicators, which are used to rank countries into four tiers, i.e. low, medium, high and very high, of human development. The source of the data is the United Nations Development Programme (see http://www.hdr.undp.org/sites/default/files/hdr2019.pdf; accessed on February 28, 2020).

A sample of a large number of countries (171, worldwide), will be considered (see the full list of countries in the appendix 1). This will allow to take in consideration countries with different levels of globalization, income, development and even different geographic locations. In addition, a recent period of time (from 2012 to 2017) will be considered.

While it is certain that, apparently, there must be a causal relationship between the levels of corruption and globalization, the influence of one of the variables on the other, but also of this other on that one, makes it advisable that, in an exploratory study, one should choose a correlation analysis methodology. This will be complemented by regression analyzes, whose objective is, essentially, to clarify, from a graphical point of view, that relationship. In order to detect the possible non-linearity in the (eventual) relationship between globalization and corruption, the well-known LOWESS (Locally Weighted Scatterplot Smoothing) methodology was chosen, implemented in the package ggplot2 for R, under the name 'method = loess', a which is based on a locally weighted regression.

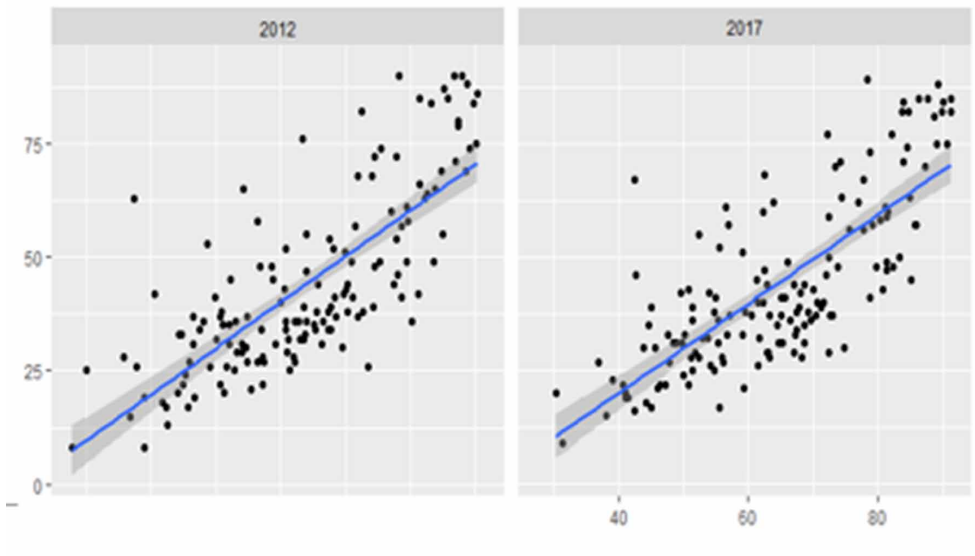
Our choice of methodology is also supported by the following argument. As is known, in the analysis of the relationship between variables, the methodology of causality *a la* Granger is one of the most used. From the point of view of time series, this Granger-causality methodology could be applied, in individual terms, to each of the (171) countries in our sample, which could be excessive and, even worse, the number of observations (6 years) being excessively low. Thus, one could apply Granger-causality to panel data. However, as recognized in Granger (2003: 70), "Various causality definitions have been used with panel data, which could be considered as a vector of time series, at least theoretically. When using G-causality, the test usually asks if some variable, say X_t, causes another variable, say Y_t, *everywhere in the panel*, in notation $X_{jt} \Rightarrow Y_{j,t-1}$, for every j. This is rather a strong null hypothesis." [italics added].

In fact, that would be a very strong null hypothesis, especially if it were considered a single panel of data, which would be inconsistent with our objectives of studying the relationship between globalization and corruption, according to the levels of human development, as will consider below.

THE RELATIONSHIP BETWEEN GLOBALIZATION AND CORRUPTION

Following a good practice in modern data science, let us start the analysis considering Figure 1, which shows how, at the beginning and at the end of the time period, KOFGI (on the horizontal axis) related to the CPI (on the vertical axis). A linear adjustment is also plotted. The figures for all years can be consulted on Figure 6, in the Appendix 2.

Figure 1. The (linear) relationship between Globalization and Corruption (2012 and 2017)



In general terms, globalization and corruption are negatively correlated. [Note that a higher value of the CPI means more transparency, i.e. a smaller level of corruption]. The visual similarity of the figures corresponding to the beginning and end of the period under analysis - also applicable to the intermediate years - allows us to state that, in global terms, i.e. for the whole set of countries, the negative association between levels of globalization and corruption.

Given that the literature points to a relationship, possibly non-linear, between globalization and corruption, in Figure 2 the data are represented, adding a non-linear adjustment line, obtained through a smooth locally weighted regression (see the material and methods sections). The figures for all years can be accessed on Figure 7, in the Appendix 2.

In fact, it is interesting to observe that, in general terms, the increase in the level of globalization is associated with significant decreases in the level of corruption, for countries that are, say, aptly globalized.

Let us consider now Figures 3 and 4, whose significant differences are to be highlighted. See Figures 8 and 9 in the Appendix 2, which plot all years (2012-2017).

While both point to a non-linear relationship between Globalization and Corruption, the fact is that, in the *de jure* dimension, increases in globalization translate into augmenting improvements in transparency, but, in fact, those same increases, for less globalized countries are hardly associated with rises in transparency and only after a certain point that increases in globalization actually translate into (augmenting) improvements in transparency.

Figure 2. The (non-linear) relationship between Globalization and Corruption (2012 and 2017)

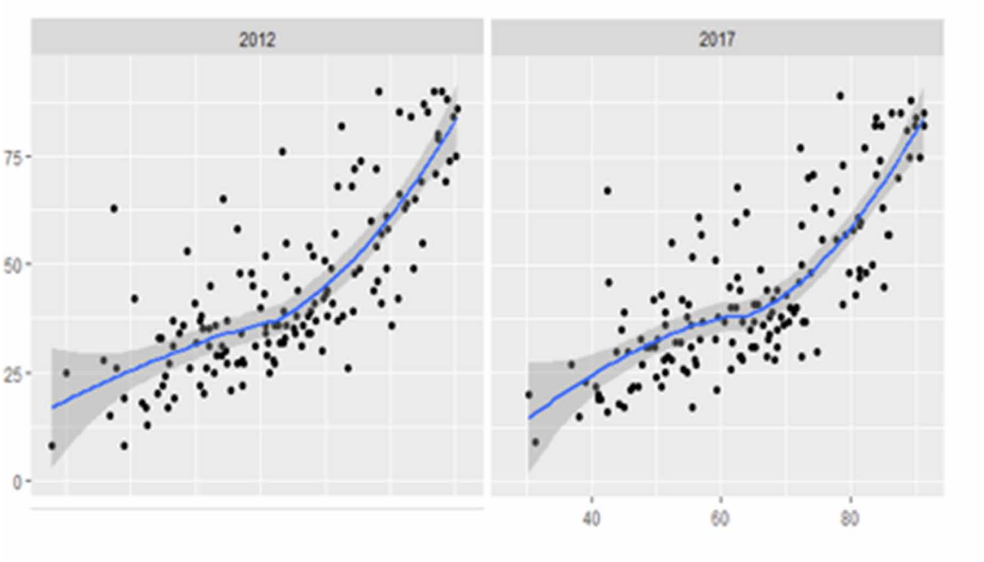
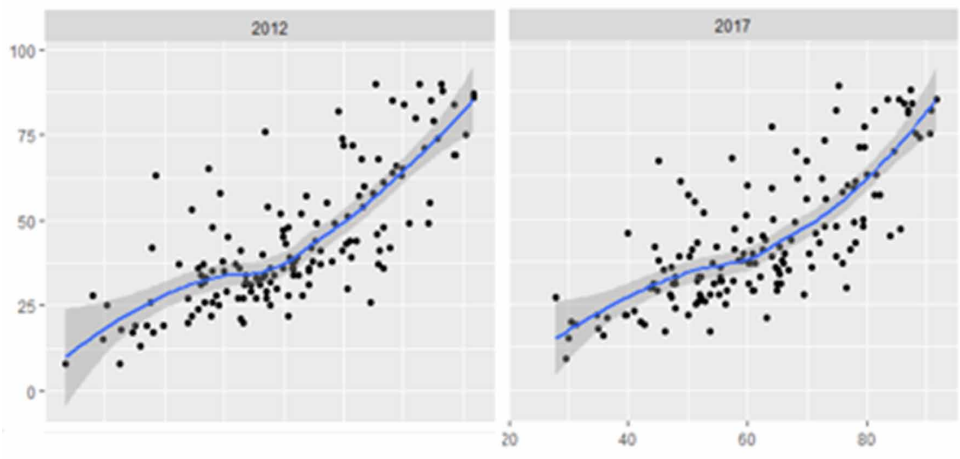


Figure 3. The (non-linear) relationship between Globalization de facto and Corruption (2012 and 2017)



The results presented above confirm the existence of a non-linear relationship between the levels of globalization and corruption, as the literature has detected and we strongly referred in the last section. This literature has not, however, analyzed this non-linear relationship, disaggregated by the level of human development.

We take this point into consideration and the Figure 5 corresponds to the graph that links Globalization with Corruption, by different levels of Human Development Index (HDI), in 2017. See the Appendix 2 for the other years (2012-2016).

Plainly, the regression lines are more sloped in the 'very high human development' countries, but also in the 'low human development' countries, so it seems that it is in these groups that greater globalization is associated with greater gains in terms of 'transparency'. These results are in line with some conclusions drawn from some studies.

Figure 4. The (non-linear) relationship between Globalization de jure and Corruption (2012 and 2017)

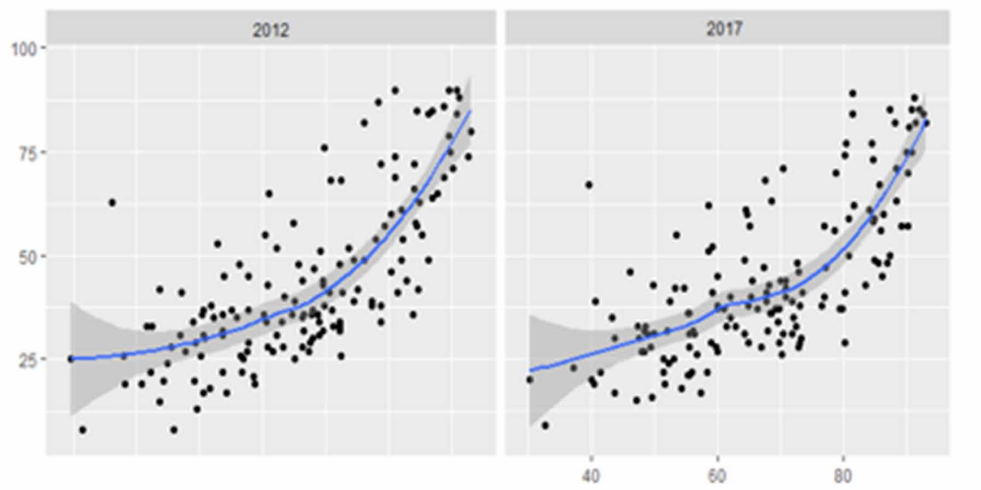


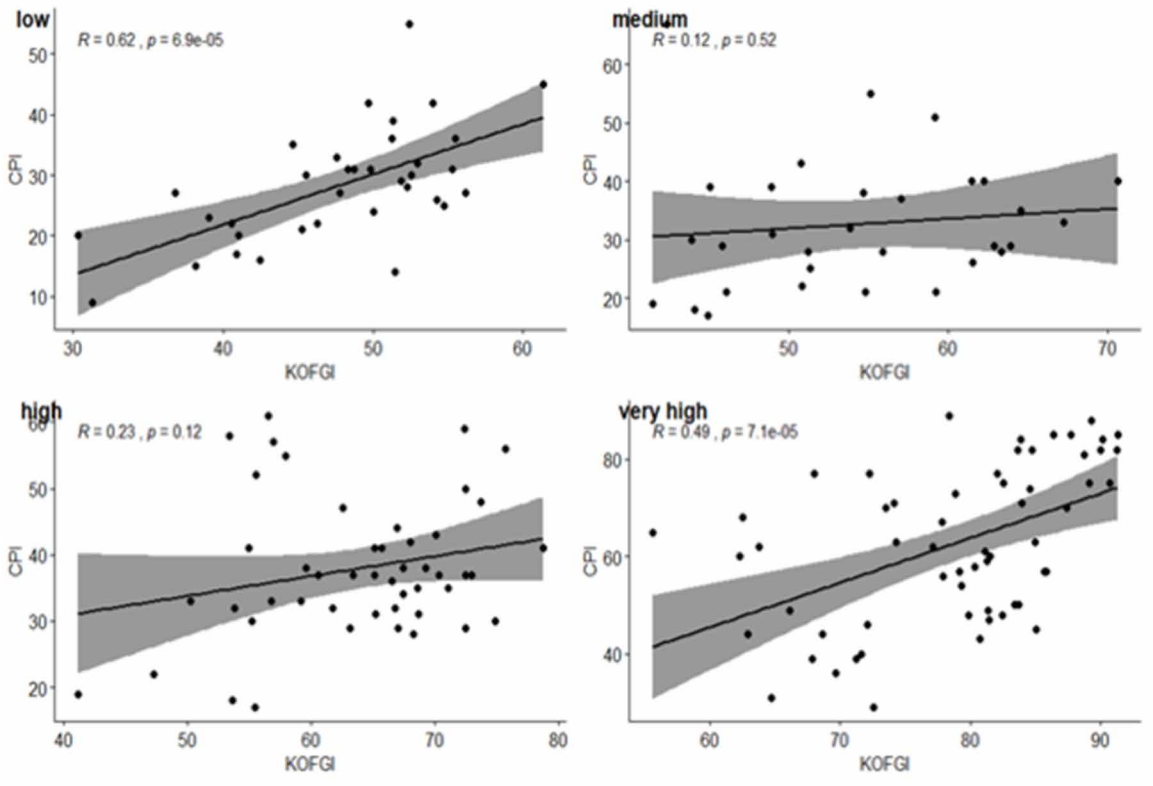
Figure 5 (as well as Figures 10 to 14 in the Appendix) apparently reflect an interesting phenomenon, with regard to the relationship between globalization and corruption. Despite being (simple) charts of dispersion, year by year, between CPI and KOFGI, by levels of human development, the observation of the figure allows to indicate a thought-provoking fact. One may notice that, in addition to the adjustment line, there is a correlation coefficient between the two variables and, more importantly, their significance. Therefore, for all years, and for low and very high levels of human development, there is a positive association, with statistical significance, between globalization and transparency. In the remaining levels of development, only in 2015 is that association also found and, even so, only for the high level of development.

To sum up, globalization seem to have positive effects on the transparency of countries when these are underdeveloped, losing that effect, in the development phase of the countries, until it becomes evident again, when countries have (already) reached a sufficiently high level of development.

SOLUTIONS AND RECOMMENDATIONS

The policy lessons that can be learned are both evident and significant. Admitting that the reduction of corruption is an objective of any country, due to the immeasurable beneficial consequences resulting from it, in particular in the attraction of foreign direct investment (Caetano and Caleiro, 2007) and in improving the competitive environment in the economy, the stake on globalization may be associated with the achievement of that objective in the following circumstances: in immediate terms, in the case

Figure 5. The relationship between Globalization and Corruption (2017) by levels of Human Development



of a country with low or very high human development; in mediate terms, i.e. when, through a development process, the country passes through intermediate levels of human development.

In fact, a more developed society, (partly) as a result of a lower level of corruption, will also be characterized by the existence of lower levels of violence and crimes, enabling the implantation of a democratic peace, crucial in escaping the trap of under development that still characterizes many countries nowadays. (Fisman and Miguel, 2010).

The advances in communication and transport technologies were the drivers of globalization, which, among other aspects, led to the fragmentation of production processes worldwide. The segmentation of final products into components and intermediate goods has changed the organization of production to global value chains spread over several countries. Naturally, the risks of managing this complexity are great, making the logistics of flows a critical factor in the viability of those chains. With the crisis triggered by the Covid-19 pandemic, many economic flows were interrupted, generating the paralysis of those chains, with severe social implications, by the reduction of production, employment and the decline of international trade.

Global value chains have been exposed to their vulnerability in the face of unexpected events with uncontrollable effects. The responses to restore the functioning of the chains will have to mitigate the risks inherent in their exposure to random events. However, corruption introduces an additional risk in the management of value chains. We face an unprecedented challenge, where governments and businesses are challenged to take steps to strengthen economic resilience and deal with social implications.

The current crisis has put health systems, personal security and the economy under pressure, and it is imperative that transparency and accountability are at the heart of the global response. It is necessary to guarantee good governance in the new social economic order. Fighting corruption must be seen as a value and not as a priority and should not be subject to the agendas of companies and governments, especially in times of crisis like this.

There is a risk that in these times we will focus only on protecting public health and economic recovery. However, if there is a relief in the fight against corruption and it increases, efforts to fight the pandemic can be fruitless, especially if we allow unscrupulous civil servants and business elites to profit from the misery of the people most affected by the crisis, instead of respond to your most urgent needs. Unfortunately, the media let us know about how corrupt activities are preventing support from reaching the most disadvantaged populations, as Prendergast expressly reminds us (see https://www.project-syndicate.org/commentary/corruption-covid19-response-africa-by-john-prendergast-2020-05?barrier=accesspaylog).

FUTURE RESEARCH DIRECTIONS

Taking into account the limitations of this study, it may be subject to future analysis. One corresponds to better modeling, from the point of view of the Human Development Index. In this work, we decided to use the official classification, which divides countries into groups of low, medium, high and very high HDI. Clearly, this classification could be changed, considering, for example, fewer groups, say smaller, medium and higher HDI. In this case, the question arises as to whether this significant relationship still exists for the groups with the lowest and highest HDI, being non-existent for the (single) group with average HDI.

In this introductory study, the variables were treated in contemporary terms. Of course, the dynamic process of interaction between the levels of corruption and globalization can result in a process of influencing globalization on corruption, and vice versa, which exhibits some temporal lag. This aspect could be the subject of a later approach.

A third way of future analysis is based on the disaggregation of the globalization index in its de jure and de facto dimensions, particularly with regard to its commercial and financial versions. The relationship between these disaggregated aspects of globalization and corruption is, almost certainly, a promising path of interesting results in these matters.

Empirical studies on the causes and consequences of corruption have come a long way in recent decades, as more sophisticated measures of corruption and measures to combat them have given promising results (Dimant and Tossato, 2018). The progress in the investigation of corruption and its articulation with the various empirical analyzes, through observational and experimental data, allowed to study aspects hitherto unexplored. In the future, the quality of research will depend on access to more appropriate ways of measuring the phenomenon of corruption. Now, a promising path is the use of more objective microdata, instead of using subjective data based on perception. However, such data are difficult to access and, many times, have to be created, but only these will allow to go beyond the mere discussion about the type of causality of the correlation between variables. Only with new data and free access to some already existing ones will it be possible to study and implement more effective regulatory policies and anti-corruption measures that help to mitigate their dissemination.

CONCLUSION

The conclusions are as follows. In general terms, the increase in the level of globalization is associated with significant decreases in the level of corruption. However, the results point to the existence of a non-linear relationship between those variables, this expression being more salient when considering the "de jure" dimension of Globalization. Therefore, the strengthening of Globalization process seems to have corresponded to a gradual improvement in transparency, although in the less globalized countries this influence is clearly not significant.

Taking into account the HDI, the interaction Globalization/Corruption is clearly more significant for countries categorized as Very High and Low HDI, which indicates that in these groups of countries the effects of Globalization on the reduction of corruption are more significant. Therefore, it can be said that the aforementioned non-linearity between Globalization/Corruption can be explained by the differences in HDI levels in the countries considered. Thus, it seems that the idea that strengthening globalization improves the transparency of countries seems to be consolidated, especially when they are at an early stage of their development process and, later, when they reach the highest levels of development.

ACKNOWLEDGMENT

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APPENDIX 1

Table 1. The list of countries

Afghanistan	Dominica	Latvia	Rwanda
Albania	Dominican Republic	Lebanon	Saint Lucia
Algeria	Ecuador	Lesotho	Saint Vincent and the Grenadines
Angola	Egypt	Liberia	Saudi Arabia
Argentina	El Salvador	Libya	Senegal
Armenia	Equatorial Guinea	Lithuania	Serbia
Australia	Eritrea	Luxembourg	Seychelles
Austria	Estonia	Madagascar	Sierra Leone
Azerbaijan	Eswatini	Malawi	Singapore
Bahamas	Ethiopia	Malaysia	Slovakia
Bahrain	Finland	Mali	Slovenia
Bangladesh	France	Malta	Somalia
Barbados	Gabon	Mauritania	South Africa
Belarus	Gambia	Mauritius	South Korea
Belgium	Georgia	Mexico	Spain
Benin	Germany	Moldova	Sri Lanka
Bhutan	Ghana	Mongolia	Sudan
Bolivia	Greece	Montenegro	Suriname
Bosnia and Herzegovina	Guatemala	Morocco	Sweden
Botswana	Guinea	Mozambique	Switzerland
Brazil	Guinea-Bissau	Myanmar	Syria
Brunei	Guyana	Namibia	Tajikistan
Bulgaria	Haiti	Nepal	Tanzania
Burkina Faso	Honduras	Netherlands	Thailand
Burundi	Hong Kong	New Zealand	Timor-Leste
Cambodia	Hungary	Nicaragua	Togo
Cameroon	Iceland	Niger	Trinidad and Tobago
Canada	India	Nigeria	Tunisia
Cape Verde	Indonesia	North Macedonia	Turkey
Central African Republic	Iran	Norway	Turkmenistan
Chad	Iraq	Oman	Uganda
Chile	Ireland	Pakistan	Ukraine
China	Israel	Panama	United Arab Emirates
Colombia	Italy	Papua New Guinea	United Kingdom
Comoros	Ivory Coast	Paraguay	United States

continues on following page

Table 1. Continued

Costa Rica	Jamaica	Peru	Uruguay
Croatia	Japan	Philippines	Uzbekistan
Cuba	Jordan	Poland	Venezuela
Cyprus	Kazakhstan	Portugal	Vietnam
Czech Republic	Kenya	Qatar	Yemen
Democratic Republic of the Congo	Kuwait	Republic of the Congo	Zambia
Denmark	Kyrgyz Republic	Romania	Zimbabwe
Djibouti	Laos	Russia	

APPENDIX 2

Figure 6. The relationship between Globalization and Corruption (2012-2017)

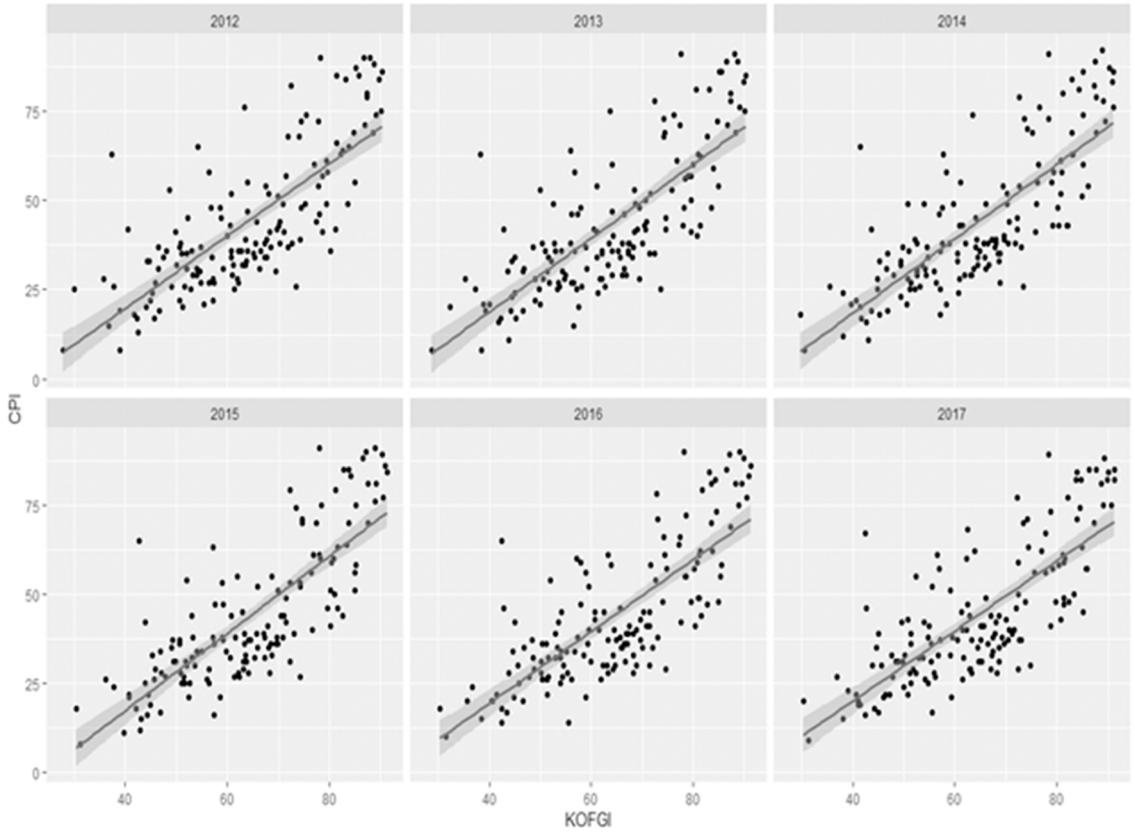


Figure 7. The (non-linear) relationship between Globalization and Corruption (2012-2017)

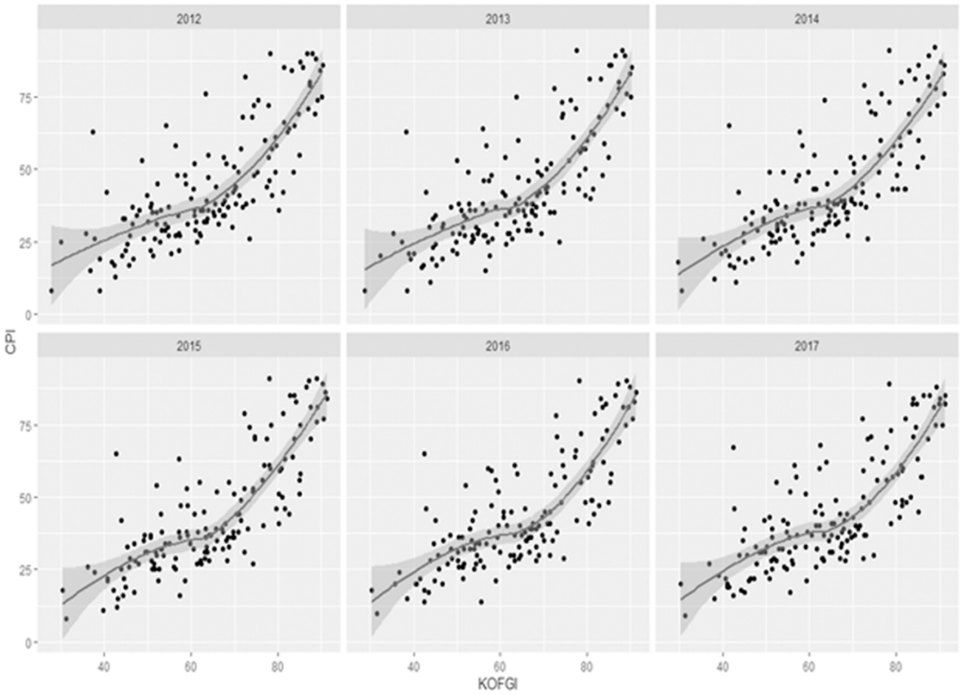


Figure 8. The (non-linear) relationship between Globalization de facto and Corruption (2012-2017)

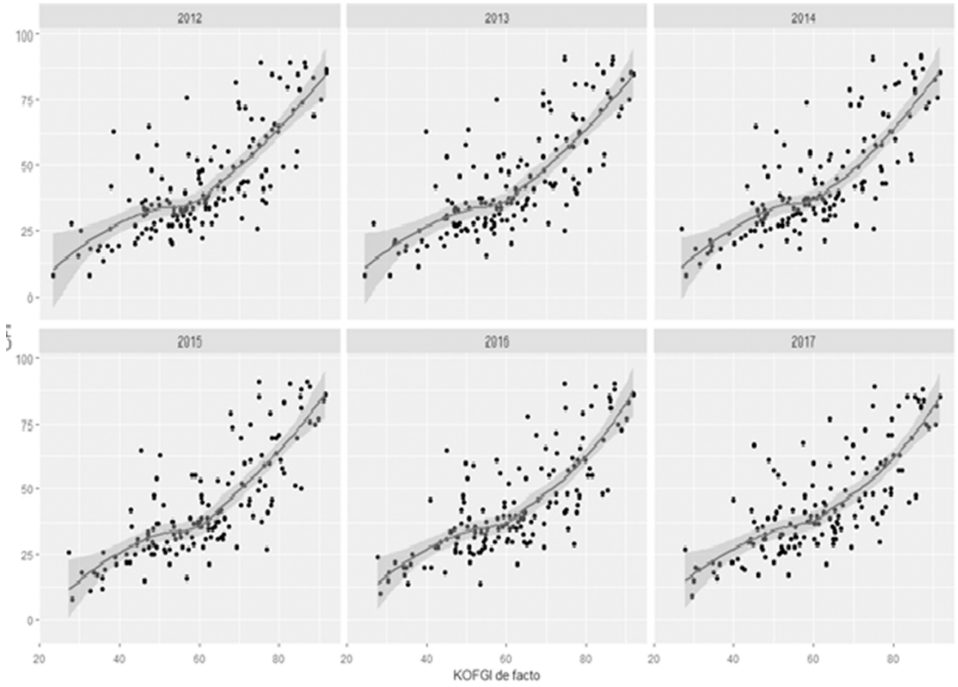


Figure 9. The (non-linear) relationship between Globalization de jure and Corruption (2012-2017)

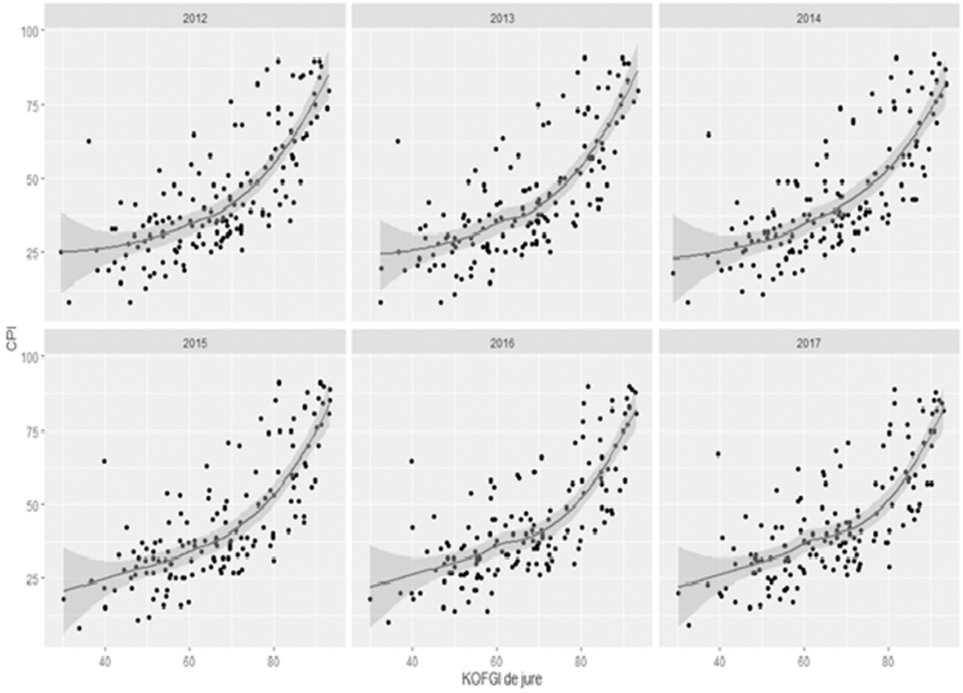


Figure 10. The relationship between Globalization and Corruption (2012) by levels of Human Development

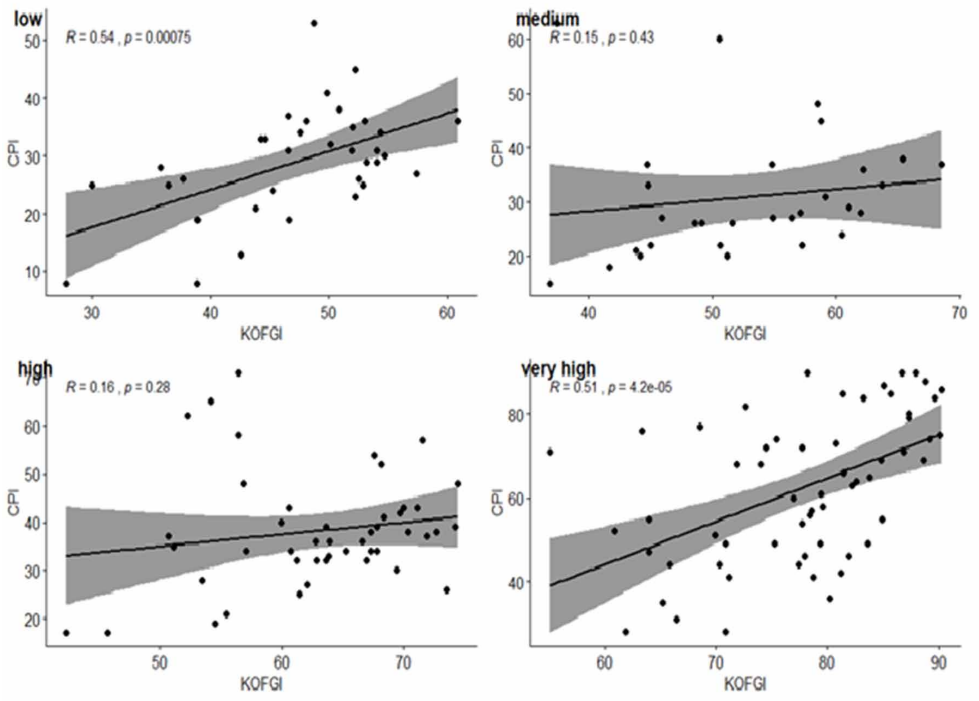


Figure 11. The relationship between Globalization and Corruption (2013) by levels of Human Development

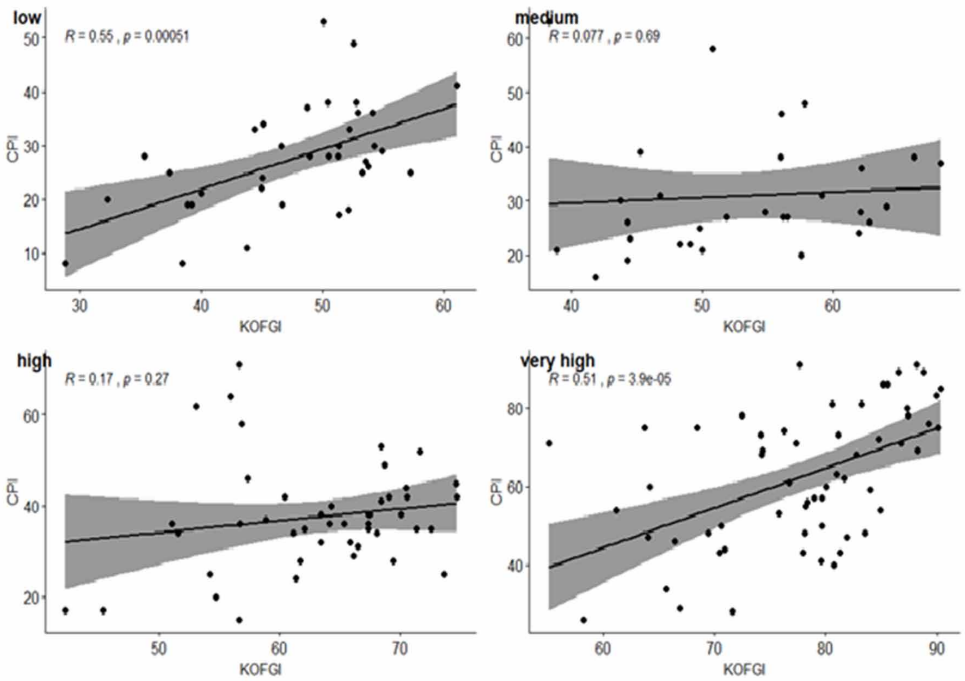


Figure 12. The relationship between Globalization and Corruption (2014) by levels of Human Development

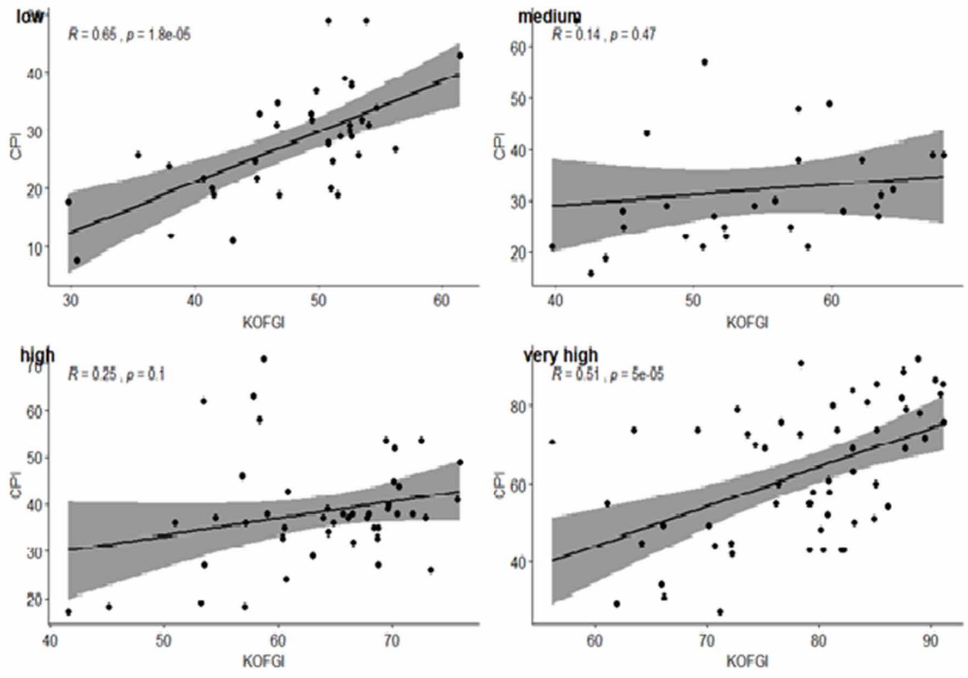


Figure 13. The relationship between Globalization and Corruption (2015) by levels of Human Development

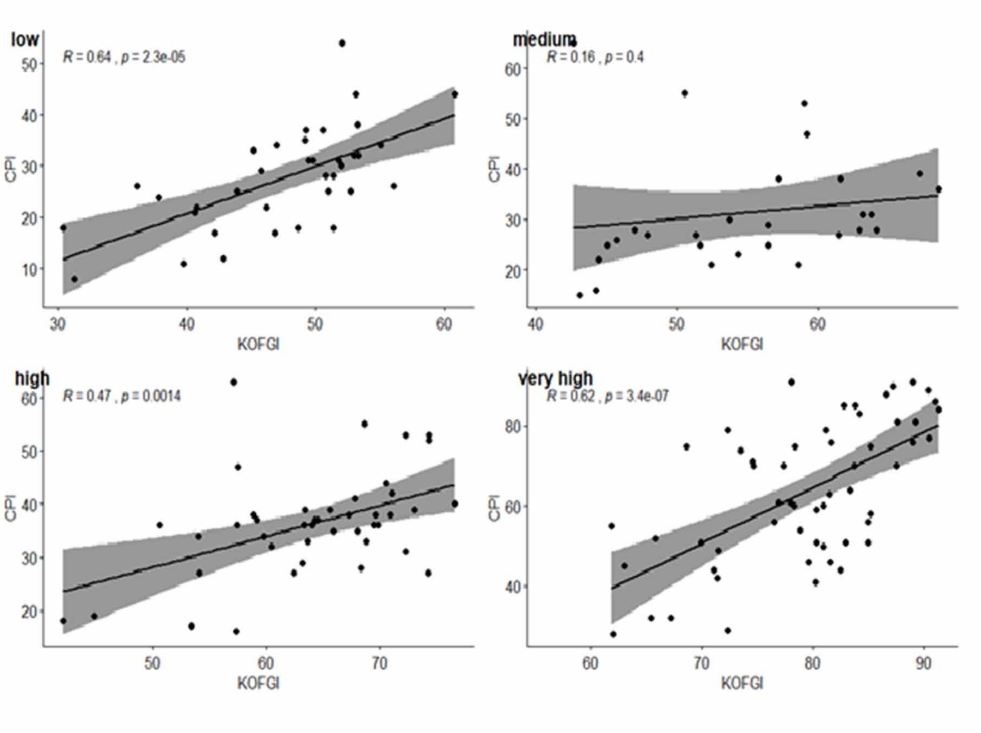
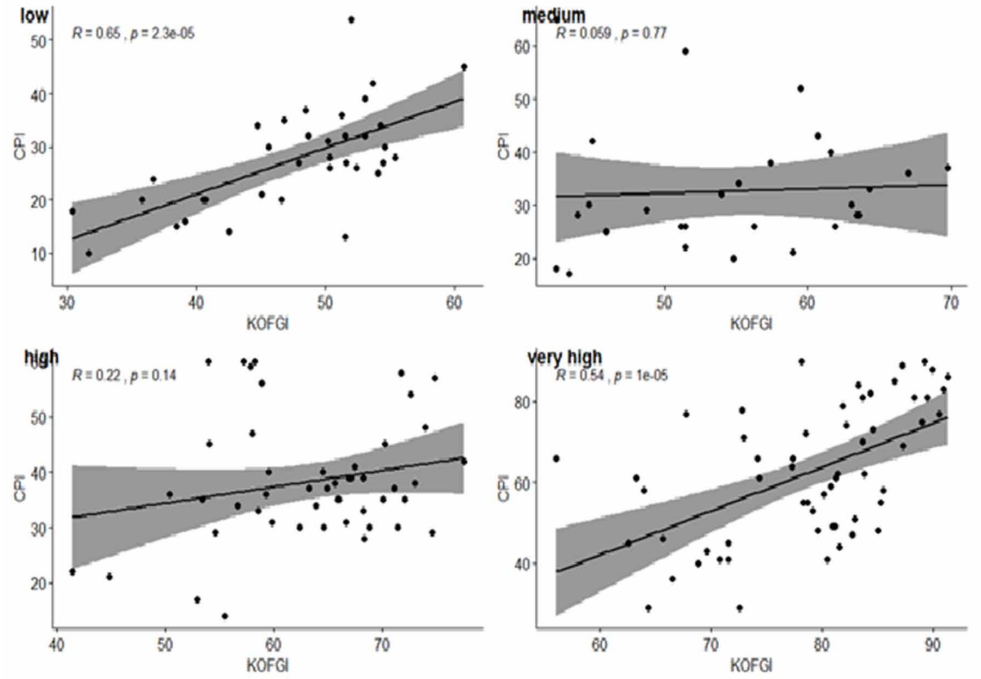


Figure 14. The relationship between Globalization and Corruption (2016) by levels of Human Development



Chapter 3
How Does Globalization Affect the Government's Public Finance?
New Evidence From Developing Countries

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ABSTRACT

This chapter investigates the long-run effect of globalization on public finance using data of developing countries from 2005 to 2017. The present research makes a contribution to the literature from various aspects. Firstly, integration and cointegration properties of the variables are considered. Then, the cointegrating relationship between globalization and public finance indicators is estimated by employing the fully modified ordinary least squares (FMOLS) and dynamic ordinary least squares (DOLS) estimators. The empirical results are mixed. Globalization influences both government expenditure and public debt positively and significantly in the long run, while it influences tax revenue negatively. Moreover, the effect of globalization on the increased share of indirect taxes in the long run is more than the effect on the increased share of direct taxes.

INTRODUCTION

Globalization is an irrevocable process allowing for the free movement of goods and services, capital, people, and ideas among countries. Especially in developing countries, globalization has significant effects. On the one hand, the technology transfer from developed countries to developing countries positively affects economic growth and living standards with the productivity increase achieved in developing countries. On the other hand, the dependence of countries on each other leads to instability in the markets of developing countries, and economic and financial policies are formed under the influence of the globalization process.

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Globalization has become one of the most discussed subjects in recent years, and within this framework, discussions in the literature on the economic effects of globalization have been divided into two groups. While the effects on the primary income distribution, constituting the direct effects of globalization, are discussed in the first part of the literature, the impacts of globalization, constituting the indirect effects of globalization, on the activities of the government are addressed in the other part of the literature(Schulze and Ursprung, 1999, p. 296).

Within the framework of the indirect effects of globalization, there are three different views in the literature regarding the effects of globalization on public finance. According to the efficiency hypothesis, which is the first view, international competition increasing due to globalization will create a disciplinary effect on public finance and cause the government's size in the economy to decrease. According to the compensation hypothesis, which is the contradictory second view, the public sector will expand to reduce the external risk created by globalization. The final view regarding the effects of globalization on public finance argues that globalization does not have a considerable impact on the public sector's size.

Nevertheless, although the rate of the increase in public expenditures has slowed down since the late 1970s, GDP still constitutes a significant part of public expenditures in many countries. Especially since the 1970s, increases in public debt have resulted in a debt crisis in many countries, and debt crises have been experienced not only in developing economies, but high-income counties (e.g. Greece, Ireland after the 2008 financial crisis) have also faced the problems of not being able to repay the public debt (Cetin, 2019). During the same period, whereas the share of direct taxes in tax revenues decreased in many countries, an increase occurred in the share of indirect taxes.

In the literature, the effects of globalization on public finance have rather been addressed separately over taxes or public expenditures, and the effect of globalization on the budget (in a comprehensive way) has been one of the topics less focused in the literature. However, it is necessary to approach the effect of globalization on the budget as a whole, and in this scope, to evaluate how taxes, public expenditures and borrowing are influenced by globalization so that the effect of globalization on public finance can be discussed. On the other hand, the studies on the effects of globalization on public finance in the literature have rather focused on developed countries, and the effect of globalization on the budget in developing countries has been ignored. However, while the effects of globalization on developing countries are evaluated, it is important to investigate the effects created by globalization on the budget in the process of establishing financial policies supporting sustainable economic growth and development in the aforementioned countries. Accordingly, this study aimed to fill this gap in the literature.

In this framework, it is aimed to explore the long-run effect of globalization on public finance for developing countries by using data from 2005 to 2017 in this paper. For this purpose, firstly, integration and cointegration features of the variables are considered. Then, the cointegrating relationship between globalization and public finance indicators is estimated by employing the Fully Modified OLS (FMOLS) and Dynamic Ordinary Least Square (DOLS) estimators. Employing two various estimation methods provides us with the opportunity to investigate the sensitivity of the results to the estimation method. In this respect, the organization of this paper's outline is presented below. In the subsequent part, the literature on globalization and its effects on public finance is discussed in a brief manner. Part 3 presents the data and methodology. The empirical findings are given in part 4. The conclusion is presented in part 5.

GLOBALIZATION AND PUBLIC FINANCE: AN OVERVIEW OF THE LITERATURE

In the simplest sense, the effect of globalization on public finance is discussed within three different hypotheses in the literature. In accordance with the first view, called "efficiency hypothesis," governments are restrained by globalization in the introduction of tax cuts since it is argued that lower tax rates will ensure the prevention of mobile capital from leaving a country. Tanzi (2001) states that the fact that globalization generates "fiscal termites" lowers the tax burden in order to gain international competitiveness. Since financial market actors pose a threat of punishing deficit spending by requiring higher interest rates, international tax competition finally causes retrenchment in expenditure (Heimberger, 2020). In line with this view, globalization makes governments perform the adjustment of the tax structure. There is a need to shift taxes away from mobile factors toward immobile factors, thus, leading to the expected decrease in the share of capital taxation and the expected increase in the share of taxes on immobile factors (Heinemann, 2000). Similarly, a shift from direct taxes that are mainly taxes on factors to indirect taxes, in other words, taxes on particular activities, is caused by globalization. This is due to the fact that distributional results differ and factors are more mobile on an international scale in comparison with particular taxed activities, e.g. general consumption (Schulze and Ursprung, 1999, p. 299). On the debt side, according to the efficiency view, the capital account liberalization assists in sustaining the fiscal discipline due to the penalization threat from the international capital market (Kim, 2018). Public expenditures financed by the government via budget deficit will encounter the threat of high risk of financial markets, and governments will particularly opt for limiting the social welfare expenditures with the effect of tax competition. On the opposite side, Azzimonti et al. (2014) stated that the increase in the public debt could historically be explained with the argument of Barro (1979) regarding tax smoothing; however, the increase in the public debt that had emerged as of the 1980s could not be explained by this argument. According to Azzimonti et al. (2014) public debt reacts positively to financial liberalization because there is now a possibility for a government to borrow from domestic and foreign agents, the interest rate required to be paid will be kept at a low level by the increased demand for its debt, which will ensure that the government can borrow more than it would do under other conditions (Vassalou and Donaldson, 2015).

The second view, named "compensation hypothesis," implies that globalization ends up with a larger public sector. The compensation hypothesis suggests that the increased external risk as a result of integration with international markets will cause more considerable volatility in domestic income and consumption. On the other hand, especially the increase in the social security and welfare expenditures of the government will play a role in reducing the risk in question (Rodrik, 1998). In his seminal paper, Cameron (1978) indicates a positive relationship between openness and tax revenue in OECD countries. . In an analysis performed for 18 OECD countries, Cameron (1978) concluded that openness was a significant determinant of the increase in the ratio of tax revenues to GDP between 1960 and 1975.

The third opinion is doubtful about theoretical statements that globalization generates robust and unidirectional impacts on government spending, as argued by the efficiency and compensation hypotheses (Heimberger, 2020). Tanzi (2004) argues that the increase in public spending in recent years cannot be explained only by the protective role of the government caused by globalization. This increase in public spending is related to economic risks associated with becoming old, ill, or being illiterate or undertrained. However, Tanzi (2004) stated that the situation might differ in developing countries, and governments might play greater roles in the economy in order to struggle with the risks likely to occur due to the possible increase in economic instability together with globalization in developing countries. On the

other hand, Dreher et al. (2008) expressed that globalization might not have an apparent effect on public expenditures since the "disciplining" and "compensation" effects of globalization neutralized each other.

According to the empirical studies in the literature, no general agreement has been achieved on the impact of globalization on public finance. On the compensation side, in his pioneering work, Cameron (1978) finds a positive relationship between tax revenue and trade openness for a sample, including eighteen OECD countries. Following the study of Cameron (1978), Rodrik (1998) shows that there is a positive association between openness and the government's size for a sample containing developing and developed countries. Similarly, for OECD countries, Gemmell et al. (2008) indicate that FDI causes a significant shift in the expenditure composition toward social spending, and Swank (2001) shows that trade openness and capital mobility increase government expenditure and tax burden, supporting the compensation hypothesis. Similarly, Adserá and Boix (2002) find that globalization increases tax burden. Moreoever, Garrett (1995), Quinn (1997) and Swank (2001) show that globalization causes higher corporate taxes. Furthermore, Garrett (1995) 21 demonstrates that globalization interacting with partisan variables leads to an increase in government expenditure. For a sample of developed and developing countries, Quinn (1997) finds that capital liberalization influences the government's size positively, and Bernauer and Achini (2000) show that trade openness causes an increase in government expenditure and tax revenue. Dreher (2006) finds that social and total spending and tax rates on capital have been affected positively by globalization in OECD countries.

On the efficiency or disciplining side, Garret and Mitchell (2001) find that there is an association between globalization and less significant government spending. Nevertheless, there is no reduction in capital tax rates, or the burden of taxation is not shifted from capital to consumption and labor income. However Hansson and Olofsdotter (2003) find that globalization leads to lowe corporate taxes.Moreover, Heinemann (2000) indicates that there is a tendency toward a shift of relative tax burdens away from corporate income in more globalized countries compared to others. Kittel and Winner (2005) find that FDI reduces government expenditure as a share of GDP for OECD countries. Similarly, Rodrik (1997) finds that the integration of trade and capital market has a negative effect on public spending.For a sample of developed and developing countries, Kim et al. (2018) determine that globalization adversely affects the government's size and debt by using FMOLS and DOLS estimators. Moreover, Kim et al. (2018) show that their results remain unchanged for low-income and high-income subsamples. On the other hand, empirical studies on the effect of globalization on public finance for developing countries are limited. For countries in Latin America, Kaufman and Segura-Ubiergo (2001) reveal a piece of evidence in favor of the efficiency hypothesis. On the contrary, Rudra (2002) states that globalization does not have to reduce social welfare spending in developing countries and that the political structure is effective.

Finally, in the empirical studies in the literature concluding that globalization has no effects on public expenditures, Dreher et al. (2008) found out in their analysis performed between 1971 and 2001 for 60 countries that globalization did not affect the composition of the government expenditures. In their empirical study of OECD countries, Grauwe and Polan (2005) stated that there was no trade-off between the increase in the international competition resulting from globalization and social expenditures.

DATA AND METHODOLOGY

In order to reveal the long-run effect of globalization on public finance, data is used from thirteen developing countries[1], which cover the years of 2005 and 2017. There are limitations in the time and country coverage because of the data unavailability. The model is shown in Eq. (1):

$$y_{it} = \alpha_i + \beta_i globalization_{it} + \varepsilon_{it} \quad (1)$$

where i = 1, 2, …, N and t= 1, 2, …, T. y_{it} refers to $govexp_{it}$, $taxrev_{it}$, $debt_{i,t}$, $taxincome_{it}$, or $taxgood_{i,t}$, $govexp_{it}$ is the government consumption expenditures as a GDP share, $taxrev_{it}$ is the government's total tax revenue as a share of GDP, $debt_{i,t}$ refers to the general government debt as a GDP share, $taxincome_{it}$ expresses taxes on income, profits, and capital gains as a revenue share, and $taxgood_{i,t}$ is taxes on goods and services as a revenue share. $globalization_{it}$ represents the globalization index. All data, excluding the general government debt and globalization, are obtained from the World Bank, World Development Indicators database. The general government debt as a share of GDP is obtained from the International Monetary Fund's International Financial Statistics, and the globalization index data are obtained from the KOF Swiss Economic Institute (KOF Globalization Index). Table 1 presents the descriptive statistics of these variables.

Table 1. Descriptive Statistics

	debt	govexp	taxrev	taxgood	taxincome	globalization
Mean	34.60712	16.18915	16.09765	36.28394	21.33085	69.44363
Median	33.78024	15.92267	15.47969	36.77026	19.90359	69.26522
Maximum	83.17673	25.87836	25.35339	77.68766	52.85811	81.40840
Minimum	7.438693	10.36235	8.569244	14.51698	-1.348380	51.32505
Std. Dev.	15.27203	3.254889	3.661666	11.99407	13.72854	6.798080

If there are non-stationary series of variables (dependent and independent), there is a possibility that the linear combinations of the mentioned series are stationary, and the series may be correlated in the long run. There is also a possibility to make an estimation of the said long-run relationship by employing the FMOLS. Kao & Chen (1995) indicated that panel cointegrated models had the asymptotically normal and also asymptotically biased OLS. The finite sample properties of the OLS estimator, the t-statistic, the bias-corrected OLS estimator, and the bias-corrected t-statistic were investigated in the study of Chen, McCoskey & Kao (1999). The findings obtained by Chen et al. suggested that there was a possibility of alternatives, e.g. FMOLS estimator or dynamic OLS (DOLS) estimator, being in cointegrated panel regressions with higher potential. Phillips & Moon (1999a) and Pedroni (1996, 2000,2004) argued that an FMOLS estimator was capable of dealing with endogeneity and serial correlation problems. In the said volume, Kao & Chiang (2000) suggested another possible approach on the basis of the DOLS estimator, which was established by utilizing the research of Saikkonen (1991) and Stock & Watson (1993) (Baltagi and Kao, 2000:29).

Think of a cointegrated system in the general way described below (Pedroni, 2000):

$$y_{i,t} = \alpha_i + \gamma_t + \beta_{ji} x_{i,t} + e_{i,t}$$

$$x_{i,t} = x_{i,t-1} + \varepsilon_{i,t}$$

Where i=1,…, N and t=1,…, T. N refers to the panel number, while T expresses the observation number in the time period. α_i and γ_t represent the panel-specific fixed impacts and the common time fixed impacts, respectively. In case $y_{i,t}$ and $x_{i,t}$ have a unit root but cointegrated for each panel having the cointegration vector [β_i,…,β_N], the error run $e_{i,t}$ is indicated as stationary by its definition. Pedroni (2000) states that the calculation of the between-dimension estimator of β_i(for j= 1,…, N) and its t-statistic is possible by performing the FMOLS estimations of the ith panel, i.e., $\hat{\beta}_j = N^{-1}\sum_{i=1}^{N}\hat{\beta}_{ji}$, and the associated t-statistic is $t_{\hat{\beta}_{ji}} = N^{-1/2}\sum_{i=1}^{N} t_{\hat{\beta}_{ji}}$.

In the research of Kao and Chiang (2000), the regression presented below is utilized for the obtainment of the DOLS estimator of β:

$$y_{i,t} = \alpha_i + \beta_i x_{i,t} + \sum_{j=-q}^{q} c_{ij}'' x_{it+j} + e_{i,t}$$

Here, q expresses the lead and lag number of the first differentiated data. $\sum_{j=-q}^{q} c_{ij}'' x_{it+j} + e_{i,t}$ represents a parametric adjustment to the errors used to correct endogeneity.

First of all, in order to examine the stationarity of the variables, Levin, Lin and Chu (2002) (henceforth referred to as LLC), Maddala and Wu (1999) ADF Fisher $\chi 2$ (henceforth referred to as ADF) and PP Fisher $\chi 2$ (henceforth referred to as PP), originating from Maddala and Wu (1999) ADF and PP tests are used. In the LLC test, there is an assumption that a common unit root process is present along the cross-sections. At the same time, the null hypothesis indicates that there is a unit root, while the alternative hypothesis suggests the absence of a unit root. Nevertheless, in the ADF and PP tests, there is an assumption that individual unit root processes are present along the cross-sections. Concerning the ADF and PP tests, the null hypothesis argues that there is a unit root, while the alternative hypothesis suggests the absence of a unit root across a number of cross-sections. If the variables are integrated of the same order the cointegration test is carried out introduced by Pedroni (1999; 2004) for the purpose of revealing the long-run relationship between variables. Pedroni (2004) presents 7 statistics with the aim of testing the null hypothesis of no cointegration in heterogeneous panels. Of the said statistics, four refer to within-dimension-based statistics, named "panel" statistics. Furthermore, the other three statistics refer to between-dimension-based statistics, called "group" statistics.

EMPIRICAL FINDINGS

As a first step, the stationarity of the variables is checked by unit root tests. Table 2 presents the findings of the unit root tests. According to the ADF tests, all variables are found to be non-stationary in runs of both nonrejections of the unit root hypotheses. On the contrary, all the tests do not reject that the first differences of the said three variables are stationary. Thus, the unit root tests demonstrate the integration of order I of all variables I (1).

Table 2. Panel Unit Root Test

	LLC	ADF	PP
debt	1.92862 (0.9731)	17.7230 (0.8162)	17.7230 (0.8162)
govexp	-0.08352 (0.4667)	13.1995 (0.9627)	11.5077 (0.9849)
taxrev	-1.57493 (0.0576)*	19.1354 (0.7447)	29.5886 (0.1988)
taxgood	-1.59414 (0.0555)*	32.1406 (0.1235)	48.2480 (0.0024)***
taxincome	-0.18447 (0.4268)	16.7284 (0.8600)	14.9267 (0.9229)
globalization	0.92446 (0.8224)	27.9980 (0.2601)	48.4032 (0.0022)***
Δdebt	-6.66336 (0.0000)***	89.3299 (0.0000)***	103.496 (0.0000)***
Δgovexp	-8.72702 (0.0000)***	84.8123 (0.0000)***	91.8023 (0.0000)***
Δtaxrev	-10.2885 (0.0000)***	135.414 (0.0000)***	137.170 (0.0000)***
Δtaxgood	-15.5556 (0.0000)***	170.867 (0.0000)***	172.713 (0.0000)***
Δtaxincome	-15.5219 (0.0000)***	179.273 (0.0000)***	180.028 (0.0000)***
Δglobalization	-10.3071 (0.0000)***	74.3444 (0.0000)***	110.872 (0.0000)***

Notes: Probability values are indicated in parentheses. *and *** refer to statistical significance at a level of 10% and 1%, respectively.

As a second step, the cointegration properties of variables are checked by using the cointegration test of Pedroni (2004). According to Table 3, the majority of the test statistics indicate a cointegration between the public finance variables and globalization at a 1% or 5% significance level. The results imply the presence of a long-run relationship between public finance indicators and globalization.

As a final step, the long-run impact of globalization on public finance indicators is estimated using the FMOLS and DOLS estimators. The log-run effects of globalization on public finance are shown in Table 4. The results are mixed. Unlike the earlier findings obtained by Kim et al. (2018) for a subsample of developing countries by using similar estimation methods, in this study, globalization has a positive

Table 3. Panel Cointegration Tests

	debt	govexp	taxrev	taxgood	taxincome
Panel v-Statistic	0.309107 (0.3786)	11.33124 (0.0000)***	6.255092 (0.0000)***	-2.373176 (0.9912)	6.470548 (0.0000)***
Panel rho-Statistic	0.322315 (0.6264)	0.004117 (0.5016)	1.205320 (0.8860)	-2.275385 (0.0114)**	1.130648 (0.8709)
Panel PP-Statistic	-1.835456 (0.0332)**	-5.564324 (0.0000)***	-1.845606 (0.0325)**	-3.044727 (0.0012)***	-1.832236 (0.0335)**
Panel ADF-Statistic	-1.869760 (0.0308)**	-6.356486 (0.0000)***	-2.602939 (0.0046)*	-3.933549 (0.0000)***	-2.958229 (0.0015)***
Group rho-Statistic	0.359512 (0.6404)	1.706957 (0.9561)	2.166599 (0.9849)	-0.77313 (0.2197)	2.084676 (0.9815)
Group PP-Statistic	-3.947477 (0.0000)***	-6.314108 (0.0000)***	-3.386174 (0.0004)***	-5.466663 (0.0000)***	-2.233652 (0.0128)**
Group ADF-Statistic	-3.932762 (0.0000)***	-7.587363 (0.0000)***	-3.358699 (0.0004)***	-5.683599 (0.0000)***	-3.733655 (0.0001)***

Notes: Probability values are demonstrated in parentheses. **and *** represent statistical significance at a level of 5% and 1%, respectively.

Table 4. Panel FMOLS and DOLS Estimates

	FMOLS					DOLS				
	debt	govexp	taxrev	taxgood	taxincome	debt	govexp	taxrev	taxgood	taxincome
globalization	1.591676 (6.253509)***	0.223908 (30.33445)***	-0.142067 (-1.977603)**	0.491086 (20.80748)***	0.316900 (12.61229)***	1.612460 (6.085074)***	0.234340 (23.55242)***	-0.208824 (-2.569841)**	0.517483 (24.43093)***	0.285979 (0.0000)***

Notes: t-statistics are indicated in parentheses. *** and ** represent statistical significance at a level of 1% and 5%, respectively.

effect on both government expenditure and public debt, supporting the compensation hypothesis, according to the FMOLS and DOLS estimates. However, the results also show that globalization leads to a lower tax revenue as a share of GDP. Moreover, it is found that the effect of globalization on the increased share of indirect taxes in the long run is more than the effect on the increased share of direct taxes. Table 4 contains the above-mentioned findings on an alternative estimation method, DOLS. The coefficients remain their sign and significance.

CONCLUSION

In this paper, the long-run effect of globalization on public finance for developing countries is examined. The present research makes a contribution to the literature from various aspects. . Firstly, in the study, the effect of globalization on public finance was discussed over the three dimensions of the budget as public expenditures, tax, and borrowing. Secondly, integration and cointegration properties of the variables are considered. Then, the cointegrating relationship between globalization and public finance

indicators is estimated by employing the Fully Modified OLS (FMOLS) and Dynamic Ordinary Least Square (DOLS) estimators. Employing two various estimation methods provides us with the opportunity to investigate the sensitivity of the results to the estimation method. The empirical results are mixed. On the one hand, globalization influences both government expenditure and public debt positively and significantly in the long run, by supporting the compensation hypothesis. However, on the opposite side, it is found a support for the efficiency hypothesis indicating that globalization influences tax revenue adversely. Moreover, it is revealed that the effect of globalization on the increased share of indirect taxes in the long run is more than the effect on the increased share of direct taxes. The results are also robust to different estimation techniques. The results of the study show that globalization has a significant effect on government budgets in developing countries. Moreover, in the study, empirical evidence has been obtained, suggesting that both compensation and efficiency hypotheses related to the effects of globalization on public finance in developing countries are valid for the different dimensions of the budget. The results acquired from the study have significant political implications for the governments in developing countries. Accordingly, globalization in developing countries will be able to adversely affect the applicability of the redistribution policies, which are of great significance in fighting against poverty and revenue distribution, for developing countries by reducing the tax revenues together with the increased tax competition. On the other hand, the increase in public expenditures and borrowing obtained in parallel with the compensation hypothesis in the study will be able to result in the increase of macroeconomic instabilities in developing countries. Within this scope, it is important to create policies balancing the negative effects on the budget with the productivity increases obtained from globalization in developing countries.

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KEY TERMS AND DEFINITIONS

Compensation Hypothesis: The public sector will expand to reduce the external risk created by globalization.

Efficiency Hypothesis: International competition increasing due to globalization will create a disciplinary effect on public finance and cause the government's size in the economy to decrease.

Globalization: Globalization is an irrevocable process allowing for the free movement of goods and services, capital, people, and ideas among countries.

ENDNOTE

[1] Developing countries within the framework of the analysis of panel data are as follows: Belarus, Bosnia and Herzegovina, Brazil, Bulgaria, China, Costa Rica, Georgia, Malaysia, Peru, Romania, the Russian Federation, Thailand.

Chapter 4
Globalization and Economy: Growth, Development, and Financial System

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ABSTRACT

Society in general has had a constant concern throughout its history and especially in recent years, where inequality has increased, and many more people live in poverty or in worse situations. Different economists have studied this situation and proposed solutions to it; governments have embarked on a constant fight to improve the economic and development conditions of the population, since this affects other indicators; but it looks like this battle is being lost globally. This chapter sought to analyze the dynamics of development in a series of countries through the analysis of different macroeconomic indicators, which were related to the financial crises of the last 15 years to determine the effect of the globalization of financial markets on nations in developing. The results of this analysis showed that although there is greater financial globalization, the crises have negatively affected the growth and economic development process of developing nations and have increased the social and economic gaps between countries.

INTRODUCTION

Globalization is understood as a process by which countries strengthen and produce their ties and relationships, creating environments of deep cooperation and dependency (Woods, 1998). At first globalization was understood as an eminently economic phenomenon, but over the years it has been understood that it is a phenomenon that transcends this sphere and affects social, political, cultural relations and anyone where there is the slightest interaction between human beings (Al-Rodhan, 2006).

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There is still no consensus regarding the true start of the globalization process, in addition to being very difficult to find in time, since relations between civilizations date back a long time and throughout history there have been clashes between different civilizations and cultures that have led to processes of destruction and cultural construction, this being a first example of the globalization process. The above can be seen throughout history, Alexander the Great in its expansion destroyed different villages in his wake but established strong commercial relations with other peoples.

The same situation was presented with the Roman Empire, who in its expansion process razed entire cities but subsequently established commercial ties. You can even see that same proceeding with the European conquest in America, at first there was a process of destruction of the local civilization to be replaced by the European kingdoms. But just as the different civilizations assimilated cultures, they also had the ability to maintain commercial and economic relations with other nations.

Thanks to the interdependence process, many economies have had positive transits on the way to achieve greater economic development. It must be understood at this point that economies seek to have significant economic growth that translates into economic development, but in both cases nations are subjected to different factors, both internal and external; although globalization is currently an external effect, it has the capacity to greatly affect nations internally.

As mentioned, there is a clear relationship between growth and economic development, both concepts have changed over the years and show both progress and extensive discussions regarding their impacts worldwide (Adelman, 1965), but clearly there have been different impacts and variables that have affected a better development of the countries' needs. By focusing mainly on the impact that financial crises have had, studies have shown how in the case of developing countries the effects have differed depending on the proximity or not of the larger economies (Goldberg & Pavcnik, 2007).

It can be seen that there is a negative effect as some nations have become impoverished and the income distribution gap has deepened, leading to a possible delay in their process of economic and social development, some authors propose a wear and tear on this phenomenon given the dissimilar effects created around the world and leading to the rethink of the existing model, one that reduces imbalances created and generates greater progress in developing nations (Wallerstein, 2005).

This leads to establish the following research problem: *What has been the effect of financial globalization on the economic development of developing countries*? As mentioned and will be explained in greater detail, globalization as a process has constantly evolved supported by other sciences and activities, and the effect that the development of financial products has had as well as the interrelation between economies has been especially important and strong, leading to the generation of different effects throughout the planet. For the development of this chapter, it was hypothesized that deepening financial globalization in a nation must lead to an increase in economic growth and a decrease in inequality or disparity in income distribution.

For the development of this chapter, it has been established as a general objective to establish the relationship between financial globalization, growth and economic development that allows an understanding its economic effects in developing countries, in Annex 1 will be displayed the list of developing countries for a better comprehension.

The following specific objectives have been outlined: (a) to analyze the economic growth of developing nations from the collection of statistical data from international organizations on the main economic aggregates, (b) analyze the economic development of developing countries based on economic concepts and models, (c) determine how the globalization of financial markets has affected the growth and economic development of developing countries, (d) generate proposals that allow developing countries to

have more strength to face the impacts of financial globalization and increase economic development in their countries.

The central concern of this chapter will be to determine the causal relationship that exists between financial developments and their massification with the level of development present in developing countries. It is necessary to start from the assumption that developing countries have less financial development, but some of them have exposed their economies even more, which have less protection but, in addition, they are weaker economies, dependent on external markets and in many cases mono-exporters, which makes them more susceptible to external shocks as a result of international globalization.

The chapter will be divided into different sections. A conceptual delimitation of globalization will be made, focusing on financial globalization; in that same section some concepts on economic growth will be exposed to strengthen the concepts on these two terms. In the following section the terms will be associated, and it will be shown how they interrelate, trying to establish causality and correlation effects between them. The chapter ends showing possible solutions, recommendations, future perspectives, and conclusions.

ECONOMIC DEVELOPMENT AND GLOBALIZATION

Understanding Economic Development

Within the different areas that are studied by economic thought, growth and development begins to be studied after the World War II (specifically since the 1960s, when economic and trade integration efforts in Europe, Asia and Latin America begin to take hold), in that period of peace, stability and global development, when the world economy showed the best behavior up to that moment and it allowed not only developed countries to increase their level, but also developing countries to get out of poverty. But just as many countries showed better economic dynamics, many others began to show the effects of an unbalanced system that deepened economic and social gaps, leaving some countries in even greater poverty.

It is worth bearing in mind that growth has always been in the minds of philosophers and economists, perhaps with Adam Smith you can see the beginnings of this concern that will be constant in economic thought, or with the later work of Mill, Malthus, Ricardo or even Marx. Smith makes perhaps one of the greatest contributions to the study of development (unintentionally) in thinking of the increasing returns from labor specialization and the gains from specialization, this may seem trivial today, but it laid the groundwork for the understanding of the economy, its gains, and population effects, which in Smith's optimistic view would be better (Smith, 2007).

Advances in economic theory opened new avenues for the development of this science, and also inputs that allowed us to think about how to improve the standard of living of countries. These bases laid down by classical economics will be used by Lewis in his model, which has work as an endowment for production and a model oriented to supply and not demand, focusing on the expansion of capital and the shocks generated on terms of trade of a nation as a result of capital accumulation (Lewis, 1954). The model will have broad criticisms that will be corrected to a certain extent with the models proposed in 1972, in which other economic variables are included and shows different scenarios that affect economic dynamics and development (Lewis, 1972). This allowed us to think of a model of economic growth and development that will not leave out aggregates or economic sectors, which would make the analysis more robust.

Prebisch (1950) conducts detailed analyzes of development with a particular focus on developing countries, basing his theory on the dependence of the countries of the south on those of the north (which could be understood as center-periphery) and points out that while these countries continue to be producers and exporters of primary goods, the gap between developed and developing countries will widen, increasing inequality and poverty between nations. It is with Kaldor (1957) that one begins to talk about a defined development model and who establishes a division of the world between countries that produce primary goods and countries that produce industrial goods. This division allows us to think about the existence of technical progress, labor restrictions and economies open to free trade.

In this regard, it is worth considering what was raised by Rostow (1960), who proposed five stages to achieve development in a nation. The first stage that a nation must reach is known as traditional society which is characterized by being agricultural, centralized and with little technological development. The second stage shows the preconditions for takeoff, in this part the nation must increase the use of technology, allow social mobility, and provide primary goods to other nations. At the take-off stage there is a greater urbanization, a process of industrialization where the textile sector usually develops and allows to move to a stage of maturity in which there is greater industrial diversification, a developed transport infrastructure and a constant investment in social infrastructure. The last stage focuses on mass consumption with a defined urban society, a strong industry, and the consumption of high-value goods.

Over time, the different analyzes on development showed the inclusion of different variables in their analysis and in their research center, which was to find determinants of why the growth of nations and how to reduce the enormous gaps in a system that based on social freedoms. In this regard, Schumpeter (2003) explains that economies and their performance change depending on the environment in which they live, which shapes their economies and their evolution, and this is what will directly affect the notion of growth and development; At this point it is worth bearing in mind that Schumpeter posed that innovation is an essential component of development, and in this scenario the ability to recognize, assimilate and apply information in the company make up that absorptive capacity, essential aspects for any company, especially those found in the financial sector (Cohen & Levinthal, 1990; Zou, Ertug, & George, 2018).

Among the different theoretical analyzes, it is worth mentioning the work carried out by Solow (1956), who established a model to analyze growth rates, which has been widely applied and developed over the years. Later Krueger (1983) and Harberger (1984) will make significant progress in understanding development in developing countries, identifying inefficient barriers to trade as constraints to development[1], and that eliminating these allows for rapid increases in economic growth and development. Lucas (1988) for his part analyzes different aspects through a series of economic models and establishes a series of variables that impact development dynamics; for him, human capital, learning and cities contribute to increase or not the growth and development of economies.

An Approach to Globalization

There are many interpretations regarding the meaning, origin, and evolution of globalization since this process can be seen from different human sciences and each one will give it a different interpretation and connotation. One can start from an acceptance of the term, which implies that the concept of the nation-state changes and becomes affected by transnational actors that affect previously established power, relationships, orientations and identity (Beck, 2009). Others like Kellner (2002) argues that it is the continuation of modernization and a force for progress that leads to growth, well-being and happiness; although it has negative aspects to the extent that it increases social and economic gaps between nations.

For Nayef & Rodhan (2006) globalization is a process of constant evolution that has changed with the development of society, for this reason it is difficult to give a precise definition about it, since it will increasingly have more ingredients that make it more complex. What cannot be lost sight of is that globalization generates connections between States, but also at the regional, local and citizen levels (McGrew, 1998). Giddens (1990) by its way, define globalization as the intensification of worldwide social relations, in this approach there will be a direct effect of the events in a locality over a locality located many miles away and vice versa.

Others like Dicken (1992) differentiate globalization from internationalization, as the first term requires greater interdependence and integration between economies. For his part, Spich (1995) argues that globalization is a conceptualization of the international political economy in which there is activity between different economic agents at different levels, and it becomes increasingly global as it encompasses more agents and more states. Perhaps one of the most complete definitions of this phenomenon is given by Tehranian, (1998) states that globalization is a process that has been going on for the past 5000 years, but with the demise of the Soviet Union has been accelerated. Elements such as transborder capital, labor, management, images, and data flows are an important part of the process. Globalization is supported by transnational corporations (TNCs), transnational media organizations (TMCs), intergovernmental organizations (IGOs), nongovernmental organizations (NGOs), and alternative government organizations (AGOs).

It is then seen how globalization is a process that encompasses different aspects of the human being and society, and how it has been changing throughout history, mutating, and becoming more complex to understand and with myths within its evolutionary process. In this regard, Ferguson (1992) poses a series of problems and myths that have impacted the process and the consequences of globalization. He discusses the existence of a new global order and other "values" associated with this phenomenon, although at the end of his analysis he highlights that globalization promotes the interweaving between cultures and the commercial system; this means that for him, globalization it is mainly an economic process derived from trade between nations.

At present, globalization continues to be a highly controversial phenomenon and one that generates mixed positions regarding its benefits and damages over time. Krugman (2019) suggested that globalization produces positive results in the way of greater openness to trade and the strengthening of democracy, but an erosion of accounting that companies must give to society and governments, given the power and influence they come to have. Stiglitz (2017) even goes a little further and states that globalization has been oversold, a market-opening discourse (sometimes forced for developing countries) but that in the case of developed countries (such as the United States) it has returned to a protectionist practice; requiring a system of protection and social guarantees to re-prosecute current practice.

Theoretical Framework About Financial Globalization

As will be shown in the next section, there is an important relationship between the globalizing process and the economic growth of nations; and it will be emphasized that this relationship has occurred mainly thanks to the globalization of financial markets, which has developed in different ways in each country. Authors such as Kose, Prasad, Rogoff and Wei (2009) conclude that financial globalization influences development through indirect channels and permeates different sectors of the economy, but these are benefits that are seen in the long term, since in the short it is complicated by the construction of infrastructure or the strengthening of the market.

Financial globalization has been widely discussed in recent years and has both those who defend it and those who attack it. Mishkin presents a well-elaborated defense on the benefits of financial globalization, proposing the minimum standards that must accompany the process and thus guarantee their perfect development, the flow of capital and their channeling through the economic sectors, also highlighting that financial globalization allows increasing total factor productivity, as long as there is a regulatory framework that promotes it. Although it necessary to should be noted that within its analysis it is possible to see some criticism for the excessive lack of regulation in this market (Mishkin, 2006).

Within the work of different authors, financial globalization must be accompanied by a regulatory framework that facilitates it, basically an environment with low or no deregulation where they can carry out operations, transactions or create financial products without any problem; not having these ingredients, added to others on the supply (firm size, capital structure) and demand (consumption, savings) side, lead to the development of financial globalization not being so deep in the countries (Stulz, 2005).

It should also be borne in mind that judging the effects of this phenomenon depend entirely on the economy where they have been presented. Heathcote and Perry (2004) developed a model and analyzed from the U.S. market the advantages of financial globalization, clearly the result shows great gains and progress for the economy as a whole, large returns on capital and diversification of financial operations that lead to increases in the profits of capital owners. While they are apparently advantaging of the process, the authors show that this must be accompanied by a process of economic liberalization that facilitates the creation of riskier and more profitable products and services.

It is undeniable that financial globalization can bring benefits to economies, not only for capital owners but benefits arising from the use of it or the increase in the presence of companies; there may be an increase in the level of savings, decreases in the cost of capital due to its abundance in the market (Henry, 2002), knowledge transfer (Borensztein, De Gregorio, & Lee, 1998), improvement in public policies (Gourinchas & Jeanne, 2004) or even further development of the financial system (Levine, 1996). These goodness's are those that have accompanied the globalizing discourse to increase these developments, but we must not lose sight of that economic problems can also arise for economies.

The problems that financial globalization can cause stem from strong deregulation to this sector and from capital inflows to speculative activities. In principle this does not cause greater impact, except increases in inequality and disparity, but which are controlled with the development of economic activity; the real problem is when economic crises arise that affect market liquidity, destroy productive capacities, and therefore jobs. Some of these examples will be mentioned later to see the effects they have had on developing economies or low-income levels.

These sections have sought to give a concrete idea about the three variables that have been studied in this chapter and shows the relationship that exists between each of them and the effects that will occur on each other. Economic theory has made it clear that thanks to economic (and hence financial) globalization, greater technological transfer is achieved, as long as trade policy measures are aimed at allowing a free flow of goods and services, this in addition to specialization allows the well-being of a nation to increase (Arndt, 1999). Economic globalization tends to generate a specialization in different markets, and this means that countries will be more efficient, advanced, and sophisticated in production, coming up with different international markets (Arndt, Globalization and the open economy, 1997).

The next section will focus on specifically analyzing growth and development dynamics in different countries or groups of countries, showing some indicators used to determine a country's degree of growth and development. It will also show the degree of globalization that exists for a group of countries and

thus finally enter to analyze what the impacts that financial globalization has had on economic growth and development.

FINANCIAL GLOBALIZATION, ECONOMIC DEVELOPMENT, AND ITS RELATIONSHIP

Analyzing Financial Globalization and Economic Development

This dynamic of growth and economic development has been affected by different variables that have influenced its performance, positive and negative. One of the variables that has most impacted the dynamics of these two economic concepts has been the spread and deepening of financial services. This sector with its entire portfolio of services has seen how, thanks to the development of globalization, it has been easier to enter other economies and generate different impacts on them. It should be noted that the development of financial services in the nations has allowed for greater ease of banking access and with this, access by the population that in earlier times could not easily access these services; but in the same way, this has led to countries suffering greater exposure to external shocks of different kinds.

Among the different contributions to development theory, it has been analyzed how much globalization has affected the development of nations, in a general way and focusing mainly on BRICS. In this regard, the research carried out by Kondulukov and Simic (2019) analyzes the impact of globalization on economic development, and is based on the analysis carried out by Subramanian and Kesler (2013), who defined characteristics such as the rapid increase in trade, the rise of services, have democratic systems, equitable trade relations between north and south, the rise of a mega trade power, trade agreements and the decrease of trade barriers. This allowed us to understand not only the complexity of the globalizing phenomenon but how it has impacted nations.

This is complemented by the indicators developed by the Swiss Economic Institute, which developed indicators to measure the degree of globalization worldwide. Figure 1 shows since 1970 what the performance of this indicator has been worldwide, and it is clearly seen how globalization has deepened over the years, reaching countries where isolation and protectionism were previously the rule. Figure shows the general globalization index, the economic globalization index and its component indexes, commercial and financial globalization. The closer to 1 the index is, it means that there is a greater globalization in its different scenarios.

Continuing with this index and disaggregated, figure 2 shows how financial globalization has increased in the selected groups of countries, classified by income level as a way of unifying countries and eliminating geographic distortions. It is clearly seen that the countries with the highest income have had a greater insertion and development of the globalization process, creating a huge gap with other countries, especially with those with less income, where financial globalization has occurred but more slowly and distantly. of large economies.

As mentioned in the previous section, financial globalization has different effects on a country's economy, in principle, should generate benefits for any type of economy, since the purpose pursued is the same. These benefits are given through greater financial integration, which through direct channels (savings, cost of capital, knowledge transfer, development of the financial sector) and indirect (increased specialization, improvement of policies, improved capital flows) generally greater economic growth that leads to poverty reduction, or an increase in economic development if it is to be interpreted in this way.

Figure 1. World Globalization Index. 1970 – 2017
Source: Own elaboration based on KOF Globalization Index (Gygli, Haelg, Potrafke, & Sturm, 2019). Retrieved from: https://kof.ethz.ch/en/forecasts-and-indicators/indicators/kof-globalisation-index.html

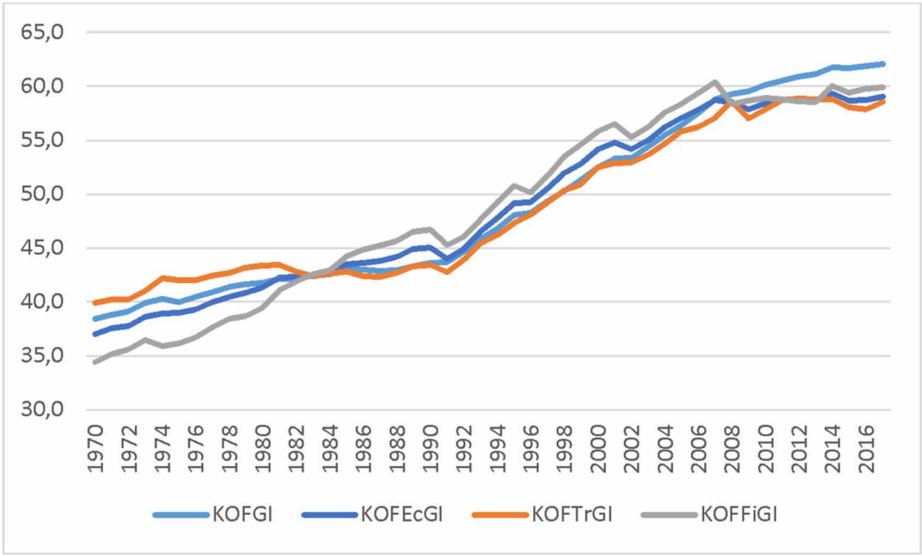


Figure 2. Financial Globalization Index. 1970 – 2017. By income level
Source: Own elaboration based on KOF Globalization Index (Gygli, Haelg, Potrafke, & Sturm, 2019). Retrieved from: https://kof.ethz.ch/en/forecasts-and-indicators/indicators/kof-globalisation-index.html

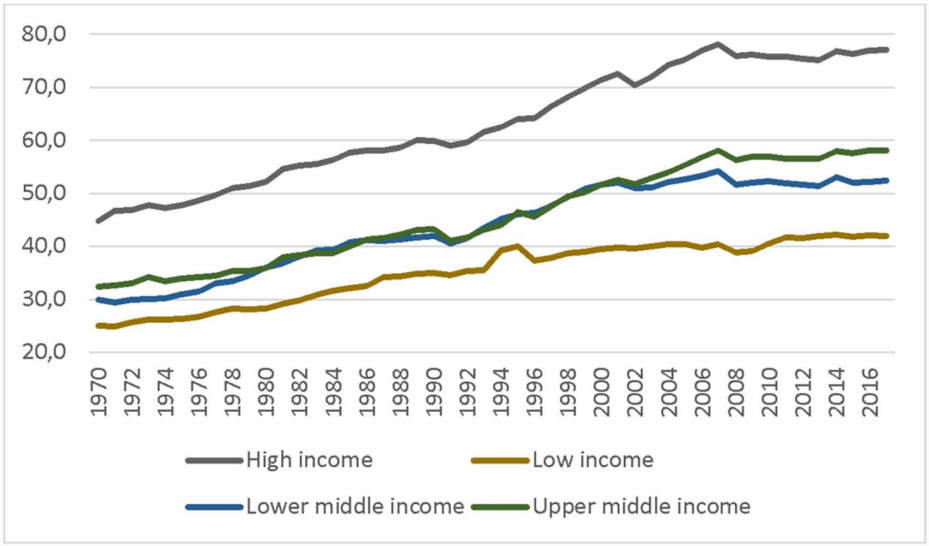
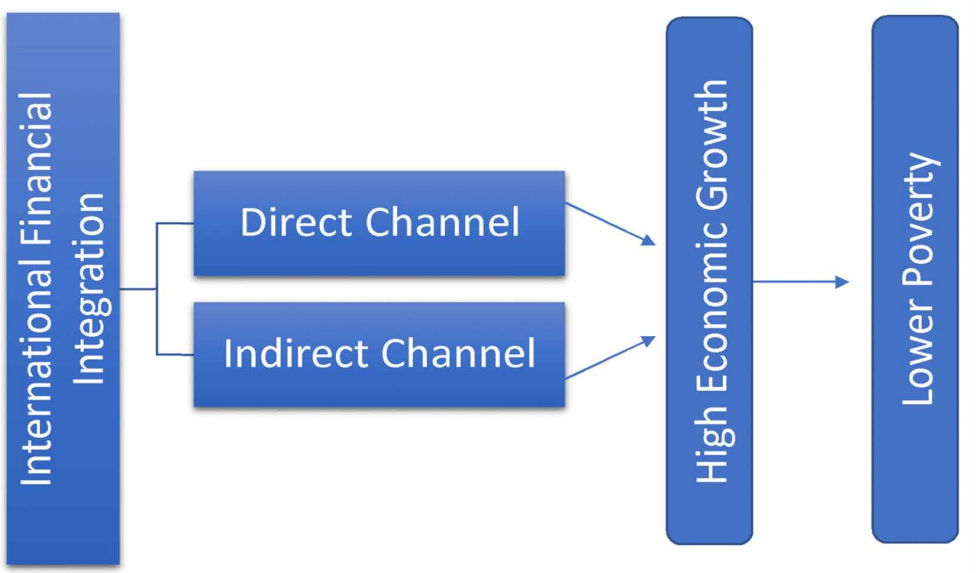


Figure 3. Channels through which financial integration can raise economic growth
Source: Taken from Prasad et al (2007)



This shows a hypothetical and desirable situation in the context of economic development, the best possible situation is where countries increase their level of development in such a way that all standards or indicators of well-being show that the population as a whole is in a better position than in previous years. The aim of these actions in principle is to improve the quality of life, but it has been seen that in many nations only the numbers have been improved, without the population receiving all the benefits of economic growth. The dynamics of growth and economic development of a group of countries will then be reviewed, and then determine the degree of progress they have had throughout the financial globalization process.

What has been shown in the previous paragraphs show the progress and deepening of the globalization phenomenon throughout the world, and the gaps that have been increasing for years. Now, how has the process of economic growth and development been in the group of countries? Table 1 shows the value of the Gross Domestic Product (GDP), as the main and primary source of analysis on the well-being and performance of the economies.

Table 1. Gross Domestic Product. 1960-2018. In USD Million

Country classification	1960-1969	1970-1979	1980-1989	1990-1999	2000-2009	2010-2018
High income	1.536.023	4.651.489	11.579.383	23.593.243	36.095.902	49.516.739
Mid-high income	278.409	874.090	1.962.883	3.596.541	7.945.769	20.889.994
Mid income	396.547	1.169.313	2.708.614	4.648.976	10.208.702	26.583.269
Low income	-	-	96.092	101.168	208.652	491.142
Heavily indebted poor countries	23.381	60.729	115.776	136.668	265.791	636.325

Source: own elaboration based on World Bank Statistics. Retrieved from https://data.worldbank.org/indicator/NY.GDP.MKTP.CD

The table above shows an undeniable and unquestionable economic progress, which for these effects will be called economic growth. It cannot be denied that countries are much better today than they were a few years ago, and that their economies have grown, in some places more than others, which is largely due to the phenomenon of globalization, but it is necessary to see at income level how those countries are, for which Table 2 will be analyzed.

Table 2. Gross Domestic Product per capita. 1960-2018. In USD Million

Country classification	1960-1969	1970-1979	1980-1989	1990-1999	2000-2009	2010-2018
High income	1.897,0	5.175,0	11.942,1	22.678,1	32.344,0	41.804,9
Mid-high income	214,5	535,3	1.033,4	1.636,9	3.282,5	8.091,9
Mid income	169,7	394,5	761,9	1.089,6	2.072,6	4.882,2
Low income	-	-	301,4	267,9	409,9	765,6
Heavily indebted poor countries	128,2	252,8	378,6	338,0	483,3	905,3

Source: own elaboration based on World Bank Statistics. Retrieved from https://data.worldbank.org/indicator/NY.GDP.MKTP.CD

Table 2 shows a situation similar to that of Table 1, in which the economic aggregate grew throughout the years analyzed. With this it can be said that there has been economic growth, which has been affected by wars, tensions, and economic crises. The question in this case is whether this economic growth has translated into true development for the countries, and that is where the situation becomes more complex since all nations have behaviors and particularities that make the changes have been different over the years and have generated greater or less economic development.

The difference between growth and economic development must be kept clear and present. The simple growth of the main macroeconomic aggregates does not mean that the nations are in a better development situation, since this is measured by the reduction of poverty and the equitable distribution of wealth within the nation. It is there where these concepts are often confused and it is believed that by increasing GDP, the nation will feel better than before; this situation will only occur when there are constant reductions in the indices of poverty, basic sanitation or education, to name a few.

One of the most common measures to understand poverty is the Gini index, which primarily measures the distribution of income in a nation, the closer the index to zero, the better distribution of wealth the nation will have. The following table shows a relationship of countries with different Gini indices, it should be clarified that it was not performed at the group level by income as in the previous tables since the World Bank finds this indicator by country and there are countries in which it cannot be found in index and that would damage the average group of countries.

The figure above shows that in developed and mainly European countries, income distribution tends to be more equitable, showing how in the case of Georgia quantitative declines have been achieved over the years. The other European countries show a stable trend in distribution, driven by welfare policies and a high tax burden for higher incomes. The countries that show an inequitable distribution of income and tend to increase the gap are Latin American and developing. While these countries have developed free-market-oriented economic models in recent years, they have had a long history of internal conflicts, discrimination, and a political class that has made no greater efforts to create a fair and equitable economic system.

Figure 4. Gini Index per country
Source: own elaboration based on World Bank Statistics. Retrieved from https://data.worldbank.org/indicator/SI.POV.GINI

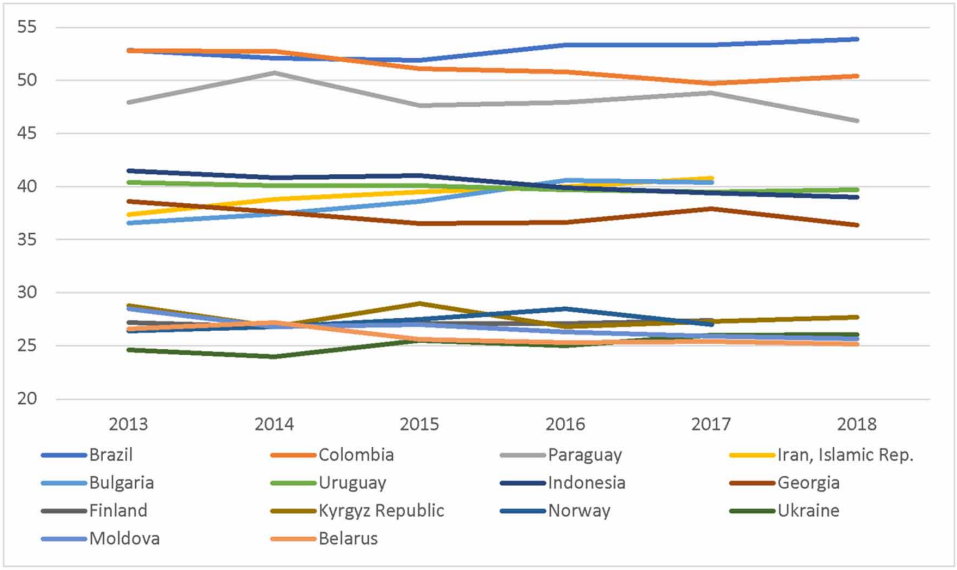


Figure 5. Poverty headcount ratio at $1.90 a day (2011 PPP) (% of population)
Source: own elaboration based on World Bank Statistics. Retrieved from https://data.worldbank.org/indicator/SI.POV.DDAY

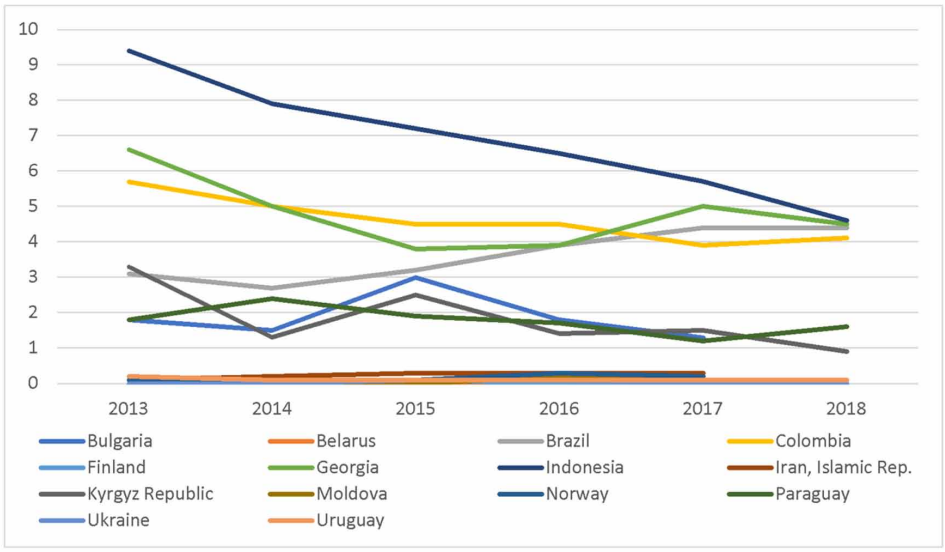


Figure 5 shows at the poverty level the trend that some countries have had. The same countries were attempted to take from the graph above. It must be seen how the vast majority of countries have either maintained or have managed to reduce the level of poverty, it is worth noting that this level of poverty is being measured as a percentage of the population that survives on less than USD 2 a day. Countries such as Brazil, Colombia or Georgia stand out as the countries in which this indicator has risen year after year, showing setbacks in poverty control or poor policies of access to the population to economic and social benefits.

Effects of Globalization Over Economic Development

Financial globalization has found not only technical and political barriers in its development process, many academics have raised both pro and against positions, and thanks to the dissimilar results resulting from economic and financial crises there are many detractors that it has won and who raise different criticisms about this process and the inequities it has generated. Some are clear about their position on financial globalization and its effects, Rodrik & Subramanian (2009) show that financial globalization has generated many disappoints in society as a whole, mainly because of the inequities that arise between countries.

The statistical analysis to determine the relationship between economic growth and financial globalization will be shown below as the first input to determine the final impact on development. It starts with this analysis to the extent that the figure of economic growth is easier to obtain and allows to measure the performance of an economy, and there is a uniformity of judgment regarding how it is found and its interpretation. It should be borne in mind that economic development indicators are more difficult as they are composed of more complex variables to quantify but will also be considered in the analysis.

In order to analyze the effects of financial globalization on economic development, the analysis carried out by Lane and Milesi-Ferreti (2006) was taken into account, who measured the level of financial globalization in all countries and croared with the annual growth of each nation. Below are the results of crossing these variables. The statistical measures found show different results that allow to conclude in various aspects regarding the behavior of these variables. For this analysis, two pillars were defined, gross domestic product per capita (GDPpCG) and the Financial Globalization Coefficient (KOFGI) that measures the degree of development and penetration of financial services and operations.

In the case of per capita, the statistical analysis showed that the average growth in countries from 1970 to 2017 has been 2.11%, which is not great but reflects an improvement in the world economy. It should be borne in mind that during the years studied there were different crises, such as petroleum (1973 and 1979), external debt in Latin America, crises in Mexico, Russia, and Asia; to close with the terrible mortgage crisis of 2008. This means that it has been forty years of economic turbulence that has impacted all the countries of the world, some more than others clearly. The standard deviation is close to average, understanding with this that the per capita can move up or down in 1.65.

For the globalization coefficient you can see that the mean of the globalization is 47.59; considering that the coefficient ranges from 0 to 100, it shows that overall, the world has not been financially globalized after 40 years. When analyzing the standard deviation, the value of 17.84 shows that it is far from the mean and that the mean found can vary by about 18 points up or down. In view of this analysis, some countries are seen to have a greater insertion into the globalizing process than others and open a large gap between the highest and lowest values. A sample of 198 countries is used for the analysis of these variables, according to the database managed by the World Bank. These analyses are shown in the table 3.

Table 3. Statistical analysis for Gross Domestic Product per Capita and Financial Globalization Coefficient. 1970 – 2017

	Mean	Standard Deviation	N
GDPpCG	2,1102	1,65113	198
KOFGI	47,5905	17,84088	197

Table 4 shows the correlation coefficients raised in this analysis. The results of this analysis show that there is no strong correlation between financial globalization and economic growth as the result is 0.073; this means that a country may or may not grow year after year but not necessarily thanks to the deepening of financial globalization, or vice versa, further deepening of financial globalization in economies does not mean that it will have a positive impact on the growth of gross domestic product per capita. The significance level takes the analysis to this same conclusion, since with a result of 0.308 it means that there is no significant correlation between these two variables being studied.

Table 4. Correlation coefficients for Gross Domestic Product per Capita and Financial Globalization Coefficient. 1970 – 2017

		GDPpCG	KOFGI
GDPpCG	Pearson Correlation	1	.073
	Sig. (bilateral)		.308
	N	198	197
KOFGI	Pearson Correlation	.073	1
	Sig. (bilateral)	.308	
	N	197	197

However, the scatter plot shown in Figure 6 reinforces what was expressed in the preceding paragraphs and statistical tables; dispersion does not show a clear trend, much less a line trend that leads to thinking about positive or negative relationships between the variables studied. This means that further insertion into the process of financial globalization does not mean that GDP per capita will increase, but it does not mean that it decreases; there is no clear effect of relationship between the two variables. Based on these figures, this conclusion is determined which was not initially in mind.

In the case of the Gini index, which was shown in a previous section, the same procedure will be performed to determine whether there is any relationship between deepening financial globalization and whether or not income distribution is improved. In this case the mean had a change, because when taking the GINI data. In this case the average had a change, since when taking the GINI data, they are not available to all countries, therefore they were excluded from both the financial globalization index and the GINI accounting. In the case of the GINI, the value yielded was 39.37 and 49.08 for the financial globalization ratio. The standard deviation in both cases was far from the mean, for the GINI it was 14.25 and for the globalization coefficient it was 8.1. This is a sign of the disparity in both indicators and the potential economic gaps that occur between the population sectors.

Figure 6. Country scatter plot for Gross Domestic Product per Capita and Financial Globalization Coefficient
Source: own elaboration based on World Bank Statistics and KOF Globalization Index

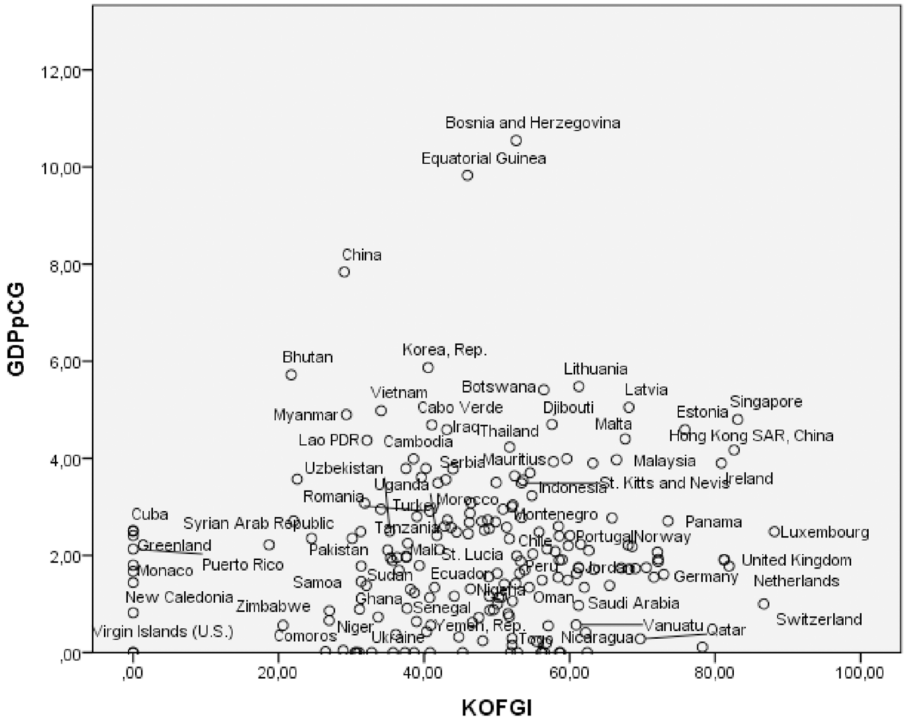


Table 5. Statistical analysis for GINI index and Financial Globalization Coefficient. 1970 – 2017

	Mean	Standard Deviation	N
KOFGI	49,0851	14,25072	161
GINI	39,3791	8,10248	160

When analyzing the correlation between these two variables, a negative Pearson correlation is observed, as the result was -0.24. Negative correlation shows that the increase in one variable leads to a decrease in the value of the other variable analyzed, meaning that the increase in financial globalization is leading to a decrease in income disparity; interpretation that can be clearly seen not only in the results but in the dynamics of country development; it has been seen that in some countries where financial globalization broke out, it left negative consequences stemming from the use of capital that in many cases was merely speculative. This is supported when viewing the result of bilateral significance, the data is 0.002 and clearly shows a strong relationship between the two variables.

This is supported when viewing the result of bilateral significance, the data is 0.002 and clearly shows a strong relationship between the two variables. If the Spearman correlation coefficient is considered, it shows a negative value, which means that there is correlation between the variables studied but with a negative or inversely proportional direction.

Table 6. Correlation coefficients for GINI index and Financial Globalization Coefficient. 1970 - 2017

		KOFGI	GINI
KOFGI	Pearson Correlation	1	-,240**
	Spearman correlation	1	-,252*
	Sig. (bilateral)		,002
	N	161	160
GINI	Pearson Correlation	-,240**	1
	Spearman correlation	-,252*	1
	Sig. (bilateral)	,002	
	N	160	160

* and **. Correlation is significant at level 0.01 (bilateral).

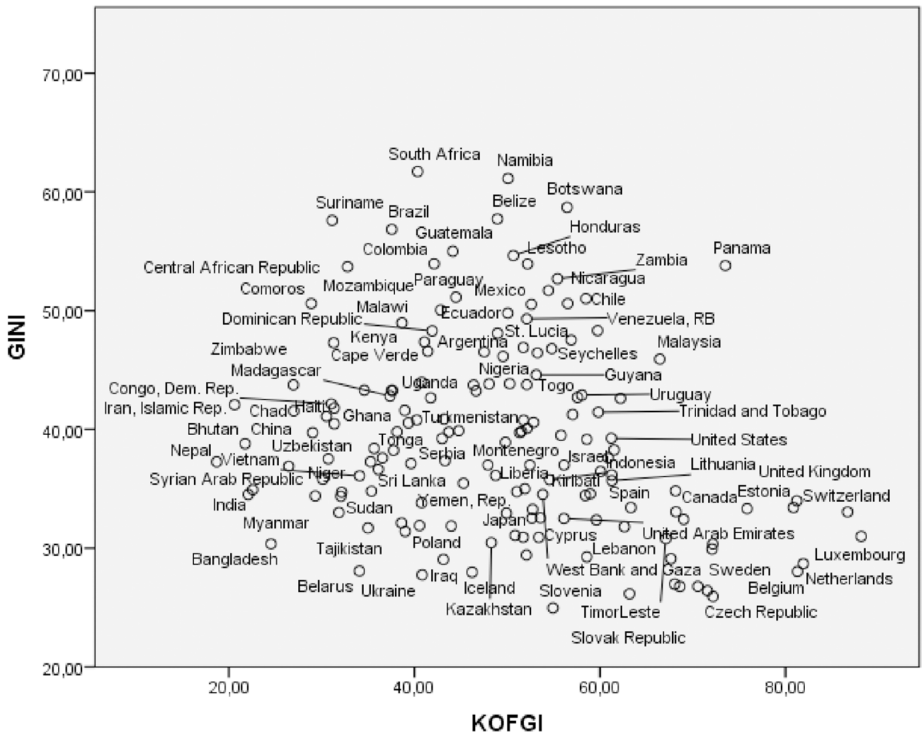
Finally, when analyzing the dispersion plot resulting from the crossing of these two variables it is seen that in the vast majority of the countries analyzed there is a negative trend in the distribution of values. The graph shows interesting results, for example, in the vast majority of developed countries, an increase in financial globalization has led to a decrease in income inequity. It is interesting to see that China has a low financial globalization index and a Gini of 40, this analysis would lead to the view that as China opens up to more financial products or flexes its policies in this respect, the reduction in income disparity will be faster. It can also be seen that the vast majority of African countries are in the area of low financial globalization and a sharp disparity in income, while the vast majority of Latin American countries are in an area of medium financial globalization and high income disparity, they are the ones who escape the trend line of this dispersion; that leads to asking why of this result.

The above analysis have two conclusions, at one hand it showed that financial globalization has no blunt effect on a nation's economic growth, but on the distribution of wealth or the decline in inequality; although some results of this analysis show that it depends not only on the phenomenon in question but on the policies that are implemented in nations and that pursue a certain result in these variables.

SOLUTIONS AND RECOMMENDATIONS

The results of the correlation of the variables studied allow us to go beyond the belief of defenders or detractors of the globalizing phenomenon and in this timely case of financial globalization, in which those who defend it consider that the deepening of this process inevitably leads to the improvement of society as a whole and the destruction of inequality; while critics see this process of interconnection lead to the destruction of society and the deepening of economic and social inequalities. The truth is that the results found show that somehow both positions are right and wrong at the same time.

Figure 7. Country scatter plot for GINI index and Financial Globalization Coefficient
Source: own elaboration based on World Bank Statistics and KOF Globalization Index



The first recommendation from this analysis is that this process should not be seen from the passion of a belief but from the data provided to us by those who constantly evaluate these variables and that reflect in a certain way what is being presented at a certain time in society. As a second recommendation, the economic analysis should be deeper and see if these figures truly reflect society, since the growth of Gross Domestic Product reflects the performance of the economy, but does not necessarily reflect the state of a society; it would be understood that an increase in this indicator will leave society in a better position, but in reality it can be seen that this does not necessarily happen, thanks to the huge income disparities that exist within a nation and between nations.

The main problem that has been encountered are the extreme positions that are often taken, both in defense and in the attack on the globalizing phenomenon and mainly towards financial globalization; it can be seen as the urbanization that has changed over time, modernizing cities and nations but leading to the loss of cultural aspects that distinguish a social group. For this reason it is recommended to see what are the truths and real implications of the phenomenon for economies, as could be seen in this research, there are several different results that are obtained when analyzing the different countries of the world. Seeing such dissimilar results and trends, but so similar depending on the geographical region, one might think that it is not only a matter of the process of financial globalization but of the accompaniment that a nation and its policies give to this phenomenon.

In the face of the above, the recommendation that the process of progress in financial globalization (which fortunately or unfortunately is increasingly advancing) must be accompanied by development and income-sharing policies; perhaps this is the point on which there should be more discussion, since in the end it is governments who through the different legal policies and tools create the frameworks for economic activities to develop and the outcome of these activities to impact the population.

Perhaps the example of this is the countries of Western Europe, where even though financial globalization has had a higher development than in other parts of the world, the disparity in income distribution is among the lowest in the world; this result is not coincidental or responds only to the forces analyzed, it is a result that is closely linked to the policies that have been implemented in some way or another by these nations to ensure that the impacts of this process do not adversely affect the population.

here we have analyzed a few variables, but others that can help to better understand the differences that exist, we must not forget the degree of urbanization of a nation, access to education or available infrastructure; this permeates social composition, culture and somehow the ability to choose and implement public policies. The recommendation or perhaps solution at this point is that government policies must be serious and ensure the inclusion of the entire population in the process, not forgetting that they should protect the population and not serve only particular interests or the owners of the capital.

FUTURE RESEARCH DIRECTIONS

Among the research and articles found throughout this chapter, there was a constant desire to understand the dynamics of development and to be able to contribute to improving these indicators in the least developed countries and thus to reduce the gaps that have arisen over the years. The contributions that have been made since the 1950s on this subject are great and important, but there is still a long way to go, especially with an economic, political, and social environment as changing as the one currently experienced.

Among what has been studied in this field it has been largely related to economic globalization and its impacts on economic growth and development; there has been ample evidence on these effects, from the positive and the negative for economies. It is clear the effect that over the years globalization, and in a timely manner financial globalization has brought on different countries, with dissimilar results between developed, developing countries and less progress.

Looking ahead and what follows for the study of these variables, it must be divided into the different topics covered throughout this chapter. The first thing to be studied is the relationship between economic globalization and economic development, as mentioned, great progress has been made in this field, but in an environment as changing as the current one, new and more complex variables are coming in that make the analysis change daily and have to rethink concepts and results previously found. Within the dynamics of development it is extremely difficult to have a flat and constant understanding of the world, but progress must be made in the creation of tools and instruments that allow for faster analysis and results to serve as an input for the formulation of economic policies.

In addition to the above, the study of the impacts of financial globalization on economies can develop much more, especially at times when new financial products appear that have complex management and different implications for economies, as they depend on the degree of insertion into international financial dynamics. Depending on the size of the economies, the implications of financial globalization will be diverse as seen and discussed, as well as the size and deepening of their financial systems; this means

that from the theoretical way you must think about how to measure these impacts and what variables to consider in order not only to understand the dynamics of the process but how to mitigate the negative effects this can have on the country's economy and development.

Now, given the current conditions of the world and the economy, a new space opens up for study in this dynamic. The economic and social effects of the pandemic have not yet been thoroughly studied, as new information is received daily and if one is known it is that this historic moment has not yet been completed. This suggests that the effects of this situation will be diverse and could increase development gaps between countries; information is found that some of the largest technology companies have increased their profits impressively thanks to the current situation, but it has not been studied what is happening with developing and least developed countries, who are increasing their external debt in an accelerated manner. A new study sale opens up to analyze the effects of globalization, financial globalization, and economic development once the pandemic ends.

In the future, different aspects that were not covered in this chapter can be discussed. A first aspect related to unmet basic needs data and figures in the population. The analysis carried out up to this point stops at the growth of the economy and income distribution, but as a complement you can think of the study of financial globalization on the satisfaction of people's needs, which is a much larger study given the number of variables that are taken into account in this indicator. In addition, it would be worth studying what the progress or political structure of nations have been and the degree of depth of financial globalization, this in order to be able to carry out a comparative analysis between what different countries have done in the world and the results obtained.

CONCLUSION

The research carried out yielded results in different aspects that enrich the current theoretical construction and pose a number of future research challenges as discussed in the previous section. The main idea in this section is to show the different results reached throughout this chapter, results that are oriented by the research problem and the objectives set from the beginning of this chapter. As raised from the start, a theoretical compilation was made on globalization, economic development, and financial globalization, as these three topics are the research axes of this chapter and served to seek cause-and-effect relationships between them.

As we could see, globalization is a phenomenon that has evolved hand-in-hand with the development of society. Globalization has become a lifestyle that encompasses different aspects of humanity, economics, politics, culture, media, and technology in some or other way have affected or been affected by the evolution of the globalization process, not forgetting that the increase in the globalization phenomenon has led to the resurgence of enemies such as protectionism or even nationalism. This process has had different effects on countries, in some countries it has been a force for positive change, while in others it has become a vehicle for deepening economic and social inequality and fostering that class struggle that can be seen in some places on the planet; but beyond this there is no denying the impact it has had and that in some way or another has served to make human beings evolve.

Within the evolution of globalization, it must be borne in mind that there is a financial globalization that has developed more strongly in recent years, but which has gone hand in hand with economic globalization, of which it is a part. This financial globalization means creating greater flexibilities for capital to move freely; this means that money can move without any impediments or controls on financial

transactions. This is based on the belief that the free movement of capital allows economic and social benefits as a greater possibility to develop productive activities or the transfer of knowledge to countries with lower productive capacities.

These two initial analyses were complemented by the theoretical delimitation of economic development, showing that while economic growth matters, to the extent that it is a framework of the state and health of an economy; true progress will be measured by the degree of development that a nation achieves, which is not so easy to measure, to the extent that there is no unit of criterion or measurement to define what is good or bad for a country. There are perhaps a number of agreements on what is understood as a good or stable situation for a country and what is not. The analysis conducted throughout this chapter focused on whether deepening financial globalization will grow further and improve the distribution of its income.

For the analysis proposed in this chapter, official statistics on economic growth (measured in terms of GDP per capita), economic development (measured in terms of income distribution) and penetration of financial globalization in countries were used. The use of statistics from the World Bank and the Swiss Economic Institute allowed access to a sample of 193 countries (although a correlation had to be reduced by a lack of information in some nations) to see if there is any correlation between the variables under study and which is usually considered to exist. The results found raise a number of questions for future research on this subject.

The first correlation (GDP per capita versus Financial Globalization) showed that there is no relationship between these two variables, which means that no matter the degree of financial globalization in a nation, this will not affect its economic growth; which is far from the normal thesis in which economic and financial globalization leads to steady increases in a nation's GDP. In making the second correlation (GINI Coefficient versus Financial Globalization) a negative correlation was found between these two variables, which means that the increase in financial globalization must lead to a decrease in inequity in a nation's income distribution, or a low deepening of financial globalization must mean large inequities in income distribution.

This correlation yields an interesting result in the face of what has been raised from the beginning of the research, but opens the door to new questions on the subject, as the results showed that this result in correlation was associated with the geographical position of nations, which leads to the view that financial globalization has been accompanied by different policies and controls in its implementation, which have allowed it to be implemented in better or worse depending on the country analyzed; this becomes a point to be analyzed in future research and through a comparative policy analysis, assessing what policies (such as deregulation, privatization, increased public spending, lower taxes for companies) countries have implemented where financial globalization has positively impacted in order to generate recommendations that serve countries where the effect has been contrary.

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KEY TERMS AND DEFINITIONS

Developed Countries: Are countries with high industrial and human development compared to other countries.

Developing Countries: Are countries with economies in the process of development, with a past of "underdevelopment" or transition from totalitarian regime, they have a better situation that other countries.

Economic Development: Is expressed in a longer period of time, consists in a series of structural changes, oriented to reach progress in industrial production, and increase the service sector. This will mean at the end, a better situation for population and welfare (Malizia, 1990).

Economic Growth: Include changes in material production during a relative short period of time, usually one year; these changes can be to increase or decrease the total value (Mladen, 2015).

Financial Globalization: Financial globalization is an aggregate concept that refers to rising global linkages through cross-border financial flows (Prasad, Rogoff, Wei, & Kose, 2007).

Globalization: Is a process of interrelationship and interdependence between different economic actors that has affected the economy, society, and politics of nations; with the intention of increasing the well-being and development of global society (Glass, 2007).

Heavily Indebted Poor Countries: Countries that have high external debt, possibly poor management of the economy and different macroeconomic complications that prevent them from increasing their growth and development

ENDNOTE

[1] In this regard, it is important to highlight the work of the GATT as a first integration effort and to increase its efforts with the WTO's work on negotiating and reducing barriers. It would be worth highlighting the different negotiating rounds such as Seattle, Cancun or Singapore, but it was Doha that after 11 years managed to boost again the commitments of barrier-free global trade and focused on deepening aid and assistance to developing countries (Rodrik, 2011).

APPENDIX

List of Developing Countries (ICQI, 2020) Afghanistan

Albania
Algeria
American Samoa
Angola
Anguila
Antigua and Barbuda
Argentina
Armenia
Azerbaijan
Bahrain
Bangladesh
Barbados
Belarus
Belize
Benin
Bhutan
Bolivia
Bosnia/Herzegovina
Botswana
Brazil
British Virgin Islands
Bulgaria
Burkina Faso
Burundi
Cambodia
Cameroon
Cape Verde
Central African Rep.
Chad
Chile
China
Colombia
Comoros
Congo Dem. Rep.
Congo, Rep.
Cook Islands
Costa Rica
Cote d'Ivoire
Croatia
Cuba
Czech Rep.
Djibouti
Dominica
Dominican Rep.
Ecuador
Egypt
El Salvador
Equitorial Guinea
Eritrea
Estonia
Ethiopia
Fiji
Gabon
Gambia
Georgia
Ghana
Grenada
Guadeloupe
Guatemala
Guinea
Guinea-Bisseau
Guyana
Haiti
Honduras
Hungary
India
Indonesia
Iran
Iraq
Isle of Man
Jamaica
Jordan
Kazakhstan
Kenya
Kiribati
Korea, Dem. Rep.
Korea, Rep.
Kyrgyz Rep.
Laos
Latvia
Lebanon

Lesotho
Liberia
Libya
Lithuania
Macedonia
Madagascar
Malawi
Malaysia
Maldives
Mali
Malta
Marshall Islands
Martinique
Mauritania
Mauritius
Mayotte
Mexico
Micronesia Fed.
Moldova
Mongolia
Montserrat
Morocco
Mozambique
Myanmar
Namibia
Nepal
Netherlands Antilles
Nicaragua
Niger
Nigeria
Oman
Pakistan
Palau
Panama
Papua New Guinea
Paraguay
Peru
Philippines
Poland
Puerto Rico
Romania
Russian Fed.
Rwanda
Samoa
Sao Tome and Principe
Saudi Arabia
Senegal
Seychelles
Sierra Leone
Slovak Rep.
Slovenia
Solomon Islands
Somalia
South Africa
Sri Lanka
St. Kitts and Nevis
St. Lucia
St. Vincent and Grenadines
Sudan
Suriname
Swaziland
Syria
Tajikistan
Tanzania
Thailand
Togo
Tonga
Trinidad and Tobago
Tunisia
Turkey
Turkmenistan
Tuvalu
Uganda
Ukraine
Uruguay
Uzbekistan
Vanuatu
Venezuela
Vietnam
West Bank and Gaza
Yemen
Yugoslavia, Fed. Rep.
Zambia
Zimbabwe

Chapter 5
Impact of Globalization on Inbound Tourism in Mediterranean Countries: A Panel Regression Analysis

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ABSTRACT

Tourism sector has become one of the leading economic sectors and export items for the countries in the globalized world after consistent growth during the past six decades. Furthermore, tourism sector is also a significant component of economic growth and an important source of foreign exchange and employment due to its labor intensive structure. Therefore, many countries have designed and implemented various economic and non-economic measures to improve inbound tourism. In this context, this study investigated the impact of economic, social, cultural, and political globalization on inbound tourism in selected Mediterranean countries for the period of 1995-2017 through panel regression analysis considering the limited related literature. The regression analysis revealed that economic globalization, social globalization, cultural globalization, and political globalization positively affected inbound tourism. In this regard, the policies raising economic, social, cultural and political integration with global economy is expected to make a positive contribution to the development of inbound tourism.

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INTRODUCTION

The tourism sector has considerably expanded during the last six decades with the accelerating liberalization and globalization processes and become the third largest export category after chemicals and fuels in the world in 2017 (UNWTO (United Nations World Tourism Organization), 2019). Furthermore, 1.5 billion international tourist arrivals were experienced in the world in 2019 (UNWTO, 2020). However, the arrivals considerably change among the regions classified by UNWTO. In this context, the Europe region attracted about half of total international arrivals in 2019 and Asia and the Pacific Region attracted a forth of total international arrivals in 2019, then regions of Americas, Africa, and Middle East respectively followed the regions (UNWTO, 2020).

Tourism sector is a critical part of growing tertiary sector, generates income and foreign exchange, creates jobs due to its labor intensive structure, contributes to the regional development, and supports local communities (OECD, 2020). However, the researchers and policy-makers have generally focused on determinants of tourism sector development considering the positive implications of the tourism sector and many economic, institutional, social, and cultural factors have been revealed as the determinants of tourism sector development (e.g. see Eilat and Einav, 2004; Culiuc, 2014; Shafiullah et al., 2018). In the related theoretical and empirical literature, the influence of globalization has stayed untouched, although globalization has potential to affect the tourism sector through various direct and indirect channels.

Globalization is a multi-dimensional concept reflecting the increased economic, social, cultural, and political integration of the countries, but the definition of the globalization varies depending on the globalization type. Economic globalization consists of trade and financial globalization and social globalization is composed of interpersonal, informational and cultural globalization. On the other side, cultural globalization is a component of social globalization and reflects the transmission of cultural values. Lastly political globalization indicates the transmission of government policies and the ability to take part in international political cooperation (Savina et al., 2019).

The globalization has gained significant speed especially as of 1980s together with liberalization and many countries have removed or loosened the barriers over international flows of goods, services and production factors. The accelerating globalization has led the changes in almost every part of our economic, social, cultural, and political lives. In this context, tourism and globalization are very interdependent phenomena. People from different parts of world can easily exchange ideas and values due to globalization. Globalization can make a positive contribution to development of tourism industry through improving and cheapening the transportation industry, facilitating the mobility of persons, culture exchange, and development of delivery. However, the raising globalization can negatively affect tourism via raising the competition among the destinations.

In this study, the impact of economic, social, cultural, and political globalization on inbound tourism in Mediterranean countries will be analyzed through regression analysis considering the limited relevant empirical literature. Mediterranean region holds exceptional historical, cultural, and natural places for various tourism types. Therefore, it is one of the prominent tourism centers with half of the number of international tourists and about one third of tourism revenues in the world (Šimundić and Kuliš, 2016). The next section sums up the related empirical literature and Section 3 describes the dataset and method. Then Section 4 reports and discusses the empirical findings and the paper ends up with Conclusion section.

LITERATURE REVIEW

The world has experienced the considerable changes in the economic, social, cultural and political fields due to globalization and liberalization processes on the rise as of 1970s. The accelerating globalization process has motivated the scholars to explore the economic and non-economic impacts and impacts of globalization. However, the impact of globalization on tourism development has been seldom investigated and the scholars have generally focused on the interaction between trade liberalization and tourism development.

Trade liberalization may theoretically make a contribution to tourism development through raising business travel, networking and awareness via product and country advertisements, and improving countries' infrastructure (Chaisumpunsakul and Pholphirul, 2018). But, tourism development also can enhance trade liberalization (Tandogan and Genc, 2016). In this way, a reciprocal interaction between trade liberalization and tourism sector development is theoretically expected. The relevant following empirical literature has reached similar findings in consistent with theoretical expectations.

In the related empirical literature, Habibi et al. (2009) explored the determinants of international tourist demand in Malaysia and disclosed a positive influence international tourism on inbound tourism. On the other side, Leitao (2010) researched the Portugal tourism demand over the 1995-2006 period and revealed the trade as a significant determinant of tourism demand. Wong and Tang (2010) analyzed the causal interaction between trade openness and tourism in Singapore with data of top five trade partners consisting of Malaysia, China, the USA, Japan and South Korea. The results revealed a two-way causality between merchandise trade openness and international tourist arrivals. Surugiu and Surugiu (2011) researched the causal interaction between trade openness and tourism exports in Romania through Granger causality and revealed a one-way causality from trade openness to tourism exports.

Abbas and Ibrahim (2011) researched the determinants of tourism demand in Egypt for the period of 1990-2008 through regression analysis and revealed that trade positively affected tourism. Jensen and Zhang (2013) researched the influence of trade and service liberalization on tourism in 190 countries for the period of 1982-2006 and revealed a positive weak impact of trade liberalization on tourism. Khoshnevis Yazdi et al. (2017) analyzed the influence of trade together with foreign direct investment and exchange rate on international tourism in 27 EU member states for the period of 1995-2014 and discovered that trade openness had a positive influence on international tourism. On the other side, Chaisumpunsakul and Pholphirul (2018) explored the interaction between international trade and international tourism in Thailand through a data of 207 trade partners and revealed a positive impact of international trade on international tourism demand.

DATA AND ECONOMETRIC METHODOLOGY

The impact of globalization represented by economic globalization, social globalization, cultural globalization, and political globalization on inbound tourism in Mediterranean countries for the period of 1995-2017 was analyzed through panel regression analysis. The dependent variable of inbound tourism was proxied by international tourism receipts in terms of current US dollar. On the other side, globalization was proxied by economic globalization index, social globalization index, cultural globalization index, and political globalization index by KOF (2020). The description of the variables was described in Table 1.

Table 1. Dataset summary

Variables	Explanation	Data Source
LTOURISM	International tourism, receipts (current US$)	World Bank (2020)
EGI	Economic globalization index	KOF (2020)
SGI	Social globalization index	
CGI	Cultural globalization index	
PGI	Political globalization index	

The sample was specified considering the data availability and study sample and period. The sample consisted of 14 states from Mediterranean region including Albania, Algeria, Bosnia and Herzegovina, Croatia, Egypt, France, Greece, Israel, Italy, Lebanon, Morocco, Spain, Tunisia, and Turkey due to data non-availability. Stata 14.0, Eviews 10.0, and Gauss 11.0 statistical software packages were used for the empirical analysis. The dataset's main characteristics are reported in Table 2. In this context, considerable differences in various globalization indicators were seen among the countries, but inbound tourism level did not considerably change among the countries.

Table 2. Dataset's main characteristics

	LTOURISM	EGI	SGI	CGI	PGI
Mean	22.31263	62.57681	66.12377	62.49710	80.31246
Median	22.42017	65.60000	68.40000	69.10000	83.30000
Maximum	25.05276	88.80000	87.40000	89.70000	98.60000
Minimum	17.14772	29.20000	24.30000	21.70000	46.70000
Std. Dev.	1.674985	12.55727	15.44967	20.03023	13.62677
Skewness	-0.487702	-0.350268	-0.620907	-0.370992	-0.590704
Kurtosis	3.072206	2.624309	2.417640	1.625946	2.379358

The impact of economic, social, economic, and political globalization on inbound tourism is explored through panel regression analysis. First, the analysis was made through fixed effects model regarding the results of Breusch and Pagan (1980) LM test, Chow (1960) F test and Hausman test, but the presence of serial correlation and heteroscedasticity problems directed us to make a choice among Parks-Kmenta estimator, Beck-Katz estimator, and Driscoll-Kraay estimator giving more robust results in case of serial correlation and heteroscedasticity. Driscoll-Kraay estimator yields more robust estimations in case of N>T, while Parks-Kmenta estimator yields more robust estimations in case of T>N (Yerdelen Tatoğlu, 2013). In this study, the Parks-Kmenta estimator is preferred considering the dataset characteristics.

EMPIRICAL ANALYSIS

In the applied part of the article, cross-sectional dependence was firstly explored through Breusch and Pagan's (1980) LM test, Pesaran's (2004) LM CD test, and the $LM_{adj.}$ test of Pesaran et al. (2008) and the test findings were displayed in Table 3. The null hypothesis of cross-sectional independence was denied at 1% significance level. So the tests pointed out the presence of cross-sectional dependence among three series.

Table 3. Results of cross-sectional dependency tests

Test	Test statistic	P value
LM	340.6	0.0000
*	68.94	0.0000
LM CD*	16.91	0.0000

*two-sided test

The stationarity analysis of the series was examined with Pesaran (2007) CIPS (Cross-sectionally augmented IPS (Im- Pesaran-Shin (2003)) unit root test taking notice of cross-sectional dependence and the test consequences were reported in Table 4. The test consequences revealed that all the series were I(0).

Table 4. Results of CIPS unit root test

Variables	Constant	Constant + Trend
LTOURISM	-2.475***	-3.031***
EGI	-1.749**	-2.652*
SGI	-2.382***	-2.382
CGI	-2.364***	-2.959***
PGI	-2.942***	-2.865**

Optimum lag length was specified as 1 taking notice of Schwarz information criterion.
* indicated that it is significant at 5%

The influence of economic, social, cultural, and political globalization types on inbound tourism was explored through regression analysis. First, the analysis was made through fixed effects model regarding the results of Breusch and Pagan (1980) LM test, Chow (1960) F test and Hausman pretests displayed in Table 5.

The impact of globalization indicators on inbound tourism was firstly analyzed through fixed effects model and the estimations were presented in Table 6. The results revealed that economic globalization and social globalization positively affected inbound tourism, but cultural globalization negatively affected inbound tourism, and political globalization had no significant influence on inbound tourism. However, the results of Wooldridge (2002) autocorrelation test and Greene (2003) heteroskedasticity test disclosed the presence of autocorrelation and heteroscedasticity problems. Therefore, the same model

was estimated through a relatively more robust estimator of Parks-Kmenta due to the existence of the autocorrelation, correlation among the units, and heteroscedasticity and the estimations were presented in Table 6. The results revealed that economic globalization, social globalization, cultural globalization, and political globalization positively affected inbound tourism.

Table 5. Panel regression pretests for model selection

Test	Test statistic	p value	Decision
Chow (F)	140.92	0.000	Fixed effects model is efficient model.
LM	1321.09	0.0000	Random effects model is efficient model.
Hausman	chi2(2)= 189.36 P value=0.0000		Fixed effects model is efficient model.

Table 6. Regression estimations

Independent Variables	Fixed Effects Model		Parks-Kmenta Estimator	
	Coefficient	P value	Coefficient	P value
EGI	0.0312	0.000	0.0282	0.000
SGI	0.0565	0.000	0.0087	0.052
CGI	-0.0136	0.057	0.0204	0.000
PGI	0.0041	0.366	0.0343	0.000
CONS	17.1366	0.000	15.95333	0.000
	F(14, 326) = 146.29 Prob > F= 0.0000		Wald chi2(1)= 1096.33 Prob > chi2= 0.0000	
Wooldridge (2002) autocorrelation test	F value=31.505 P value=0.0001			
Greene (2003) heteroskedasticity test	chi2 (11) = 1524.52 Prob>chi2 =0.0000			

Theoretically, a positive influence of globalization on inbound tourism is expected through the channels of technological development especially in industries of transportation and communications, facilitation of persons' mobility, development of delivery, trade and financial liberalization. Our findings were consistent with theoretical expectations and economic, social, cultural, and political globalization positively affected inbound tourism. Furthermore, positive influence of economic globalization including trade and financial globalization was compatible with Habibi et al. (2009), Leitao (2010), Khoshnevis Yazdi et al. (2017), and Chaisumpunsakul and Pholphirul (2018) in the related empirical literature.

CONCLUSION

Tourism sector has become an important export item in the globalized world by the contribution of globalization. Therefore, many scholars and policymakers explored the impacts and determinants of tourism sector development. However, the influence of globalization on tourism sector development

has stayed untouched in the relevant literature. In this study, we investigated the impact of economic, social, cultural, and political globalization on inbound tourism in sample of Mediterranean countries through regression analysis.

The regression analysis revealed that economic globalization, social globalization, cultural globalization, and political globalization positively affected inbound tourism. The findings are compatible with the relevant theoretical and empirical literature. Consequently, integration with global economy positively affects the development of inbound tourism. Future studies can investigate the nexus of globalization-tourism for different parts of world.

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Chapter 6
Foreign Direct Investments:
A Key Factor for Business Globalization

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ABSTRACT

Foreign direct investment is considered an effective way to enhance a country's comparative advantages. They are also a significant source of economic development, modernization, growth of production, exports, employment and income, and the main actors are multinational companies. Globalization of the market has increased the tendency for many companies to procure goods and services from different locations. The main goal of the paper is to present the structure and forms of FDI at the global level, as well as theories of FDI through the interconnectedness of multinational companies, their investments, and the economy of a country as an end user. The results of the research clearly indicate that it is in the interest of every country to attract as many FDI as possible, given that they are one of the success factors of the national economy in the global market. Therefore, the primary task of economic policy makers is to monitor world trends, harmonize domestic regulations and create an investment climate that will benefit foreign investors.

INTRODUCTION

Globalization represents the constitution and establishment of the guidelines of the single world market as well as the application of generally accepted principles for all participants, all with the aim of enabling the unhindered flow of capital and goods across national borders. The free movement of capital encourages the development of each national economy and thus increases their competitiveness. One of the main features of the process of globalization of the world economy is the internationalization of production, ie vertical and horizontal linking of economic entities from different countries. The faster

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movement and the volume of financial transactions are a consequence of the globalization of the world economy, which for most countries means a larger inflow of foreign capital, especially FDI. In the processes of globalization of the world economy, FDI has a significant role for economic growth and development of the national economy (Domazet, Marjanović, 2018), reducing the development gap of the national economy in relation to developed countries, as well as for faster inclusion in global economic flows. Globalization is considered a developmental force of modern society and is a reflection of concentration, centralization of capital and new forms of integration processes, with multinational companies considered as carriers.

FDI is a type of investment that aims to increase the efficiency of multinationals, as well as to support and encourage the development of a national community (Anken, Beasley, 2012). Neto and Veiga (2013) find that FDI is a consequence of modern processes taking place in the sphere of financial globalization, and at the same time they are the most important international source of financing. Therefore, foreign direct investment is a result of financial globalization, without which the significance of FDI would be imperceptible. Internationalization, as one of the outcomes of financial globalization, encompasses a number of interstate financial and economic processes. Internationalization creates the possibility that each entity can move from one market to another, looking for the best conditions for placement or fundraising. Through the development of international financial markets, the process of internationalization in the financial sector can be tracked, whereby the spillover of capital between individual markets is the result of the strength of multinational companies. Within the context of financial globalization, conglomeration is a very important process, especially through the expansion of multinational companies. This primarily refers to pooling (fusion or integration) of companies, or according to more recent terminology – mergers and acquisitions (M&A). If we look at it from a financial point of view, we can talk about merging financial institutions worth a billion dollars (megamergers), or even over several billion dollars ("super mega" mergers).

Foreign direct investment is a form of capital investment in which an investor acquires assets in another country with the intention of managing those assets. Therefore, these investments are directly related to multinational companies that aim to own and control production facilities that they establish outside their home (domicile) country. The volume and intensity of the distribution of foreign direct investments on a global level depends, above all, on the overall situation in the world economy.If a company opted for export, it would certainly have the lowest level of liabilities to the market in which it operates, with low risk, minimal control, but consequently lower profit potential. Since most companies are interested in making as much profit as possible, they decide to buy existing or establish completely new companies. Therefore, in addition to increasing profits, this way of entering the market, as a repercussion, brings more obligations and higher business risk for multinationals.

The accelerated process of globalization, liberalization of the foreign investment regime and deregulation of many activities, have enabled multinational companies an increasing choice of locations. As a result, multinational companies are becoming increasingly demanding in choosing a host country for investment. Countries that, through their overall policy, ensure an environment in which the conditions for unhindered and profitable operation are stable, will certainly attract FDI faster and easier than those countries where the investment environment is not sufficiently favorable (Domazet et al., 2018). The main goal that countries strive to accomplish is to achieve stable and long-term economic growth, which will be based on rise of investments, improving the technological base and increasing the competitiveness of their products in the international market. FDIs can play a significant role in fulfilling this objective. They can directly contribute to the transition process through capital inflows, but also indirectly

through technology transfer, managerial, production and organizational know-how, creating new sales channels for domestic companies as well as strengthening competition and the restructuring process in the domestic economy (Domazet, Marjanović, 2017b).

BACKGROUND

Globalization is a dynamic process of liberalization, openness, and international integration across a wide range of markets, from labor to goods and from services to capital and technology. Globalization is based upon the freedom to trade with the rest of the world and to capitalize on each country's comparative advantage, the freedom to invest where returns on capital are greatest (Kornecki, Rhoades, 2007; Danciu, 2012).

Global trends in capital movements, as well as the value of investments, indicate the great importance of foreign direct investment, which is reflected in the development of the national economy of each country (Domazet, Marjanović, 2018). The process of internationalization is most pronounced in the market of financial derivatives. In this situation, the progress of these markets is associated with the upsurge of institutional investors who have huge assets and who intend to protect it from potential risks (Cahen, 2015). Financial liberalization contributes to the emergence of cheaper capital, the abolition of interest rate control, and its smooth flow facilitates and reduces the cost of investment, thus increasing capital efficiency (Faia, 2011).

Donaubauer et al. (2019) study an whether financial market development in both host and source countries has an effect on bilateral stocks of foreign direct investment. FDI increases with better developed financial markets in both the host and the source country. With the growing opportunities for free movement of capital on the world market, countries have come to a position to compete with each other for the favor of economic entities, all with the aim of attracting as much investment as possible on their territory (Marjanović, 2018).

A country can be a very attractive investment destination for foreign investors provided it has good performance in four key parameters: economic activity, legal and political system, business environment and infrastructure (Groh, Wich, 2012). One of the main tasks of each country is to increase production and exports, which should aim to achieve stable economic growth over a longer period of time. In order to make this possible, the necessary precondition is to attract FDI (Domazet et al., 2018). The decision of a foreign investor to choose a location for investment is greatly influenced by both the size of the country and its risks (Garcia et al., 2013). Bolivar et al. (2019) conclude that country features such as size, openness, skill levels, and institutional stability not only set the pace of FDI, but that they also influence both the network structure and the power positions of each node.

Governments in many developing countries seek to attract foreign investment by using, among other things, various tax incentives for multinationals (Azemar & Dharmapala, 2019). In a situation when a multinational company decides to invest in one country, it brings with it certain benefits for the FDI recipient country, which are reflected in increased production, technological advancement, human capital development, foreign trade promotion, increased income, etc. (WIR, 2012; Giofré, 2013). When deciding to invest capital in another country, it is very important for a multinational company to define its motives, which are: profit, market, use of resources and adequate tax system (Nishiyama & Yamaguchi, 2010).

RESEARCH METHODOLOGY AND OBJECTIVES

In the era of business globalization, the removal of obstacles to the freer possible flow of capital, goods and labor is becoming more and more pronounced. In that situation, the countries with their overall policy contribute to the creation of an environment where there will be stable conditions for unhindered and profitable operation of investors, which will contribute to attracting foreign investments in a faster and easier way. The size of a country and the market growth rate are key parameters for determining how to enter a market. On the one hand, we have multinational companies that have capital, technology and knowledge, and on the other hand, they are most often developing countries that generally do not have their own sources for financing development, and in that respect, foreign direct investments are very important to them.

The methodology in this chapter is based on a quantitative approach, with the main task to present in a clear and detailed way the important facts related to foreign direct investment and their importance on a global scale, whether it is the most developed countries, developing countries or countries in transition. Secondary data based on official UNCTAD reports were used in the analysis. The time period covered by the analysis is from 2010 to 2018.

Given that the work is segmented into three parts that are interconnected in their importance, it can be said that the main objectives of the work are the following:

No. 1 - define theories about FDI and determine what activities the company undertakes when investing capital in a particular country.
No. 2 - determine the structure of foreign direct investment observed from a global point of view and according to economic groups in the period 2010-2018.
No. 3 - determine in what way, i.e. in what form, foreign direct investments enter a country.

Based on the goals set in this way, with an appropriate methodological setting, it is more than clear that the main focus will be on the presentation of foreign direct investments on a global scale. Given that multinational companies are the main carriers of foreign direct investment, it is essential to adequately show the forms of capital movements in a given period of time. In this way, it will be possible to see the distribution of FDI by groups of countries, but also within individual sectors.

MAIN FOCUS OF THE CHAPTER

FDI Theories

FDI theories explain the reasons for protecting those companies that have a competitive advantage in the domestic market, and at the same time intend to transfer their production to one or more foreign countries. These theories began to develop in the 1950s and can be observed over two periods. In the first period, which lasted until the end of the 1970s, the research was focused on the analysis of foreign direct investment and multinational companies as the main carriers of these processes, which greatly affect the economy of a country. In the second period, which began in the late 70s of the last century, the emphasis was placed on multinational companies, their origin, motives as well as on the benefit that countries in which capital is invested can have.

Regardless of the fact that these theories arose independently of each other, there is a certain connection between them, and we can talk about several theories of foreign direct investment:

1. *Vernon's product life cycle theory* – was created in 1966, successfully integrating trade and investment at different stages of the production cycle. According to Denisia (2010) this theory starts from technological factors related to the market and rejects the classical assumptions about the international immobility of factors of production. In the first phase, the product is developed and presented on the market, and it is very important to take care of the harmonization between all activities that relate primarily to production, marketing, design and the like. The second phase implies the conquest of new markets, especially taking into account that to target advanced and export-oriented economies. In the third phase, the standardization of products is taken into account, as well as the steering of production towards developing countries that have low labor costs. In addition to the fact that the finished product is mostly returned to the home country of the investor, one of the main goals of the companies is to export the product to developed countries, i.e. to countries with lower purchasing power. However, after a certain period of time, the volume of exports decreases, and the main reason is the strengthening of competition. In that situation, the company has the opportunity to increase its investment abroad, but also to reduce production costs. The contribution of the theory is in the understanding of multinational companies and their connection with the theory of international trade.
2. *Internalisation theory* - aims to explain the internal functioning of large companies, which exclude parts of their activities from the market mechanism and perform the same within the hierarchical structure of the company. This theory applies to all companies operating in the local or international market (Buckley & Casson, 2009). The goal of internalization is to create an opportunity for a multinational company to make a certain profit through the transfer of goods, services and capital between the company and its affiliates established in other countries. The premise of this theory is that a company should have comparative advantages that will help it expand its own activities.
3. *Global horizon theory* - starts from the position that it is necessary for the company to become international. This means that it is not enough for a company to be active in one country, but to have the opportunity to expand its business to other countries. With the development of the company, the possibility of its expansion (under the influence of internal forces) across the "global horizon" is created, i.e. change of business space with placement of products and services (Rasouli Ghahroudi et al. 2019). Internal forces include the impact of new technologies, the possibility of access to new raw materials as well as the expressed need for a larger market.
4. *Market imperfection theory* - starts from the position that the company already has a "global horizon", but also has a goal, which is to take advantage of it in relation to companies located in a particular market. When entering a new market, the company is not in a privileged position as is the case with local companies. Precisely for that reason, the company should have certain advantages, all in order to change its current position, which is generally unfavorable (Kusluvan, 1998). Within the framework of market imperfection, special attention is paid to vertical and horizontal investment. In the case of horizontal investment, the goal is to produce the same product both in the investor's home country and in the market where the company has established its offices. In the case of vertical investment, the goal is to produce semi-finished products in other markets where the company has its offices, and then return to the home country where the production of finished products continues.

5. *Negotiation theory* - aims to determine the relationship between companies that have an interest to invest in another country. The task of this theory is to draw a parallel between the investment of capital by a foreign investor, on the one hand, and the attitude of state policy towards the business of multinational companies, on the other hand. According to De La Torre (1981) one of the main goals of investors is access to new markets and inputs while reducing risk, while the restriction refers to the administration related to starting a business. On the other hand, the goal of the state is economic efficiency, share in ownership and management as well as economic stability, with limitations related to inadequate availability of resources, and pressure to quickly achieve economic goals and lack of information.
6. *Geobusiness theory* - takes into account the international business activities of all companies, including a large number of variables related to the specificity of products, the particularities of the company, their competitiveness but also the individual characteristics of the country. The aim of this theory is to explain the business activities of companies that have access to the necessary resources required for international operations. Based on information related to new opportunities and risks, companies should make a decision as to which market (country) they intend to invest their capital. According to Rugman (2013) It is very important for the company to develop a logistics model that should contain the available sources of raw materials, the location where production, marketing and research activities will be performed and where they are precisely directed, as well as the supply of labor and capital. This model should help the company to develop its optimal strategy.

In addition to those already mentioned, one of the theories that can further define the answer to the questions why, how and where FDI will occur is OLI theory, which uses a holistic approach to examining the overall connections and interactions of different business components.

"OLI" Theory of Production and Sales Globalization

"OLI" theory of globalization of production and sales, or electrical theory, was developed by John H. Dunning with the aim of studying foreign direct investment. In one of his researches (Dunning, 1973) which referred to international trade flows, and in which economic entities engaged in international production were involved, he came to certain findings on the basis of which he formulated three groups of factors influencing FDI. The first group referred to market factors that included the intensity and size of market growth, measured by the level of GDP in the host country. The second group (cost factors) was related, first of all, to the labor force, i.e. to its availability and costs, without neglecting in any case the inflation rate as a very important factor. The investment climate was the third group of factors, which included political stability in the country, the state of the balance of payments and the degree of external indebtedness of the country.

In order for a company to undertake capital investment activities, it is extremely important that the following conditions are met (Dunning, 1979):

(a) **O**wnership advantages,
(b) **L**ocation advantages and
(c) **I**nternalisation advantages.

The electrical paradigm is a three-tier evaluation framework (Ownership-Location-Internalization) that companies can follow when trying to determine if business expansion through FDI is beneficial to them. Since companies are looking for the most cost-effective options while maintaining quality, the electrical paradigm can be used to assess any scenario that shows potential.

Ownership advantages – for a foreign investor it is extremely important to have certain advantages in relation to a company operating in the country in which he plans to invest capital. These advantages can be in tangible assets (capital and raw materials) and intangible assets (information, new technologies, managerial skills, marketing skills, entrepreneurial skills, organizational system). A foreign investor operating in another country is in a worse position than a local company, given that it has additional operating costs such as transportation costs, communication costs, language and cultural barriers and the fact that they are outside local business networks. By investing in an unfamiliar environment, a foreign investor seeks to recoup certain costs with the advantages it has over a local company. The three main types of benefits for multinational companies that apply this approach are:

- monopolistic advantages that multinational companies receive in the form of privileged access to markets, entry and exit through ownership of natural resources, patent rights, etc.,
- technology, broadly defined knowledge to contain all forms of innovative activity and
- large scale economy (advantages of joint management), such as economies of scale, access to financial capital and the benefits of international diversification of assets and risks (Munoz-Bullon & Sanchez-Bueno, 2013).

Location adventages – for a multinational company it is very important to answer the question of where it is best to locate the production activity. Therefore, it is important to use the advantages offered by a certain location in addition to the advantages of the company, all with the aim of achieving the greatest possible benefit from the investment itself. In order to attract a foreign investor, it is very important for a country to have appropriate advantages in the production of certain products. In that case, the investor will locate his production in a country that offers better profitability. Otherwise, the production will be performed in the home country and then the products will be exported abroad. Factors relevant to the location chosen by the foreign investor are natural resources, infrastructure, transport costs and government intervention (investment support and lower tariff rates).

Internalisation advantages – as a determinant of investment, shows why in certain cases it is better to perform product transactions in the internal market, where the advantages can be fully realized. Due to the imperfect international market, there is also a need to create an internal market. In addition, internalization occurs due to specific advantages for which the external market does not exist. The distortions that occur make it impossible to create a perfectly competitive market. These distortions may be natural due to the nature of the market itself or unnatural as a result of the intervention of the government of the country concerned. Multinational companies seek to take advantage of their strengths, and there are three ways to do so: (s) licensing (when a company sells the right to use to another company), (b) export (independent use of its advantages), and (c) through foreign direct investment.

Depending on which of the above advantages the company possesses, it determines the way of serving the foreign market, and based on that, the "OLI" paradigm provides an answer to the question of which model of entering the foreign market a multinational company should use.

Table 1. Model of a multinational company's entry into a foreign market

	Ownership advantages	Location adventages	Internalisation advantages
License	Yes	No	No
Exports	Yes	No	Yes
FDI	Yes	Yes	Yes

Source: Johnson, 2005.

Table 1 shows the models of entering the foreign market, which a multinational company has at its disposal depending on the advantages it possesses. The existence or non-existence of internalization advantages determines how a multinational company will use its ownership advantages. If a multinational company has ownership advantages but cannot achieve internalization advantages and cannot achieve location advantages in a foreign country, it is decided to transfer its advantages to a foreign partner through a license. When there are internalization advantages, and provided that the host country has excellent location advantages, the most efficient way for the company is to take advantage of its ownership advantages through exports. If all three "OLI" conditions are met, the foreign investor will decide to invest directly in a particular country. Therefore, in order for a multinational company to have a strong enough motive to carry out foreign direct investments, in addition to the existence of ownership advantages, the conditions for the existence of internalization advantages as well as location advantages must be met.

FDI Structure

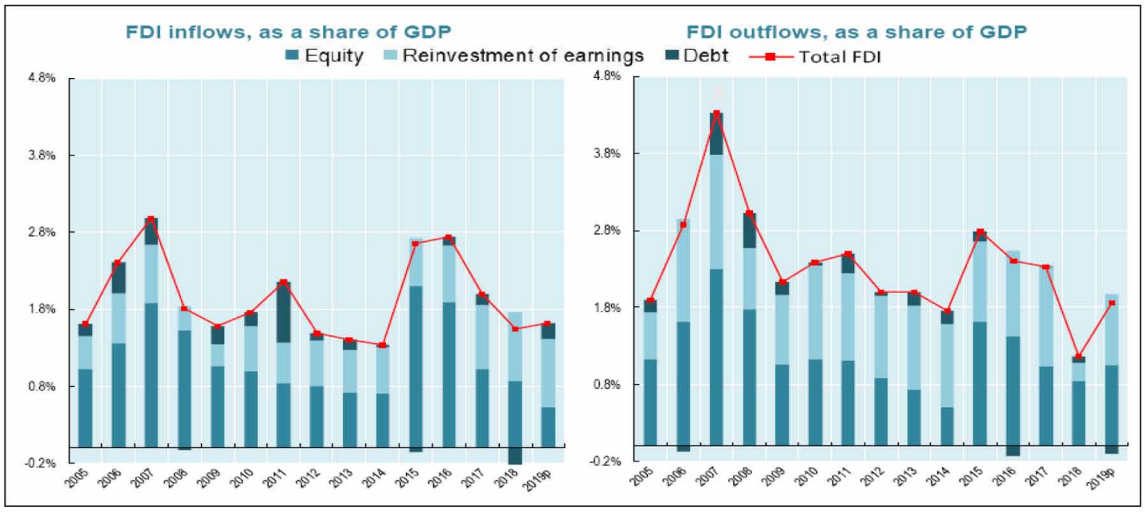
In modern business conditions, the foreign market is not conquered by classic exports, but through foreign direct investments. By dislocating their production systems, multinational companies achieve the most favorable supply of raw materials, energy and labor, and place their products and / or services on the world market in the most profitable way. According to the authors Popovčić-Avrić i Đenić (2010 it is possible to distinguish several periods marked by investment "booms".

The first period occurred in the late 70s of the last century, under the influence of the second oil crisis. Considering that in that period investments were oriented mainly to oil producers, this trend lasted for a very short time and was characterized by a small volume of investments. Second period (80s of the last century) is related to developed countries, because the development of information technology has enabled multinational companies to very quickly and easily coordinate their activities located in different parts of the world. The third period (second half of the 1990s) is characterized by regional diversification of the investment process as well as the participation of a certain number of developing countries as investors, mainly in the inflows of foreign direct investment. Although the USA and Great Britain, as large world investors, kept the leading role, in that period the borders were moved and other countries were included in the investment flows (Germany, France, China, Latin American countries, etc.). The fourth period occurred at the beginning of the 21st century, mostly as a consequence of the recovery of the world economy after the period of recession. In that period, the largest investment share was in developing countries, with the BRIC countries (Brazil, Russia, India and China) making a significant contribution.

FDIs are very important for most world economies, and thus represent an important part of global financial flows. Cash flows consist of three components: (a) *equity* – a foreign investor invests equity in the shares of a company with the intention of acquiring a share in the ownership of that company. An ownership share of at least 10% of ordinary voting rights in a joint stock company is most often considered as a limit for asset control. This category includes mergers, acquisitions and greenfield investments; (b) *reinvestment of earnings* – includes the part of profits of a foreign investor that the local offices did not distribute through dividends, or earnings that were not sent to a foreign investor but were retained by the local offices and then reinvested. In most cases, reinvested earnings are presented as additional capital of a foreign company; (c) *debt* – most commonly refers to loans within a company that relate to short-term or long-term loans. This category includes preferred shares without the right to vote, but also trade loans between foreign investors and their offices in another country.

Financial flows in OECD countries in the period from 2005 to 2019 are shown in the Figure 1.

Figure 1. OECD FDI flows by instruments, 2005-2019
Notes: p: preliminary estimates
Source: OECD (April 2020), http://www.oecd.org/investment/FDI-in-Figures-April-2020.pdf

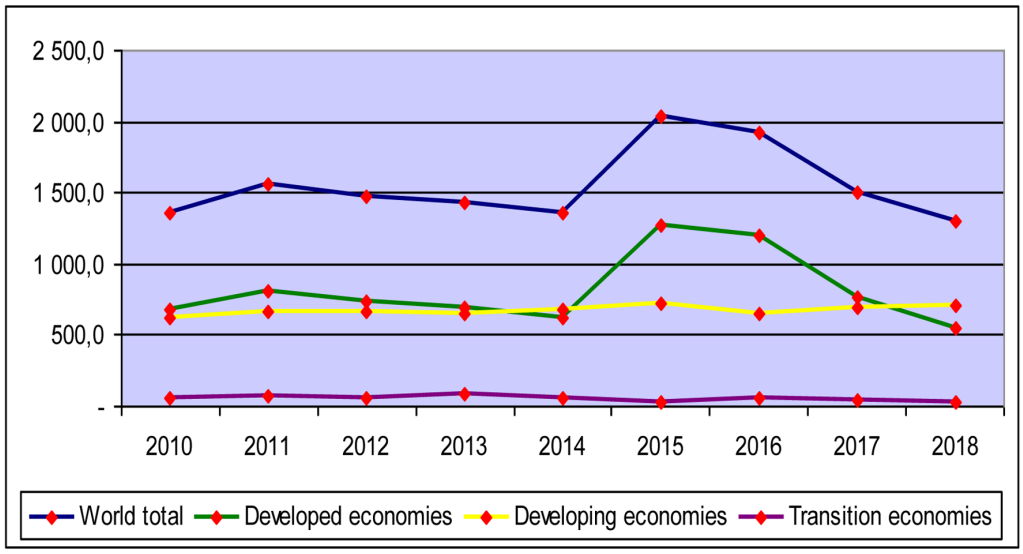


According to the OECD (2020) reports, in 2019, FDI equity inflows dropped by 37% and represented 0.5% of OECD GDP, their lowest level since 2005, and continuing the downward trend that started in 2016. FDI equity outflows from the OECD increased by 26%, partly driven by an increase from Japan due to Takeda Pharmaceutical's acquisition of Shire PLC

Based on the previous chart, it is clear that equity is the largest component of foreign direct investment inflows.

The volume and intensity of the FDI distribution at the global level depends, above all, on the overall situation in the world economy (WIR, 2019). The dynamics of the global structure of foreign direct investment, especially in recent years, indicates certain changes in the correlation between developed and developing countries.

Figure 2. FDI inflows, global and by economic group, 2010-2018 (Billions of dollars)
Source: authors, based on UNCTAD



FDI inflows from a global point of view and by economic groups in the period 2010-2018 are shown in Figure 2. After increasing in 2014 and 2015, foreign direct investment flows began to decline and this trend continued in the next few years. . At the global level, in 2018, compared to 2017, there was a drop in FDI by 13%, ie. from about $ 1.5 trillion to approximately $ 1.3 trillion. The flow of foreign direct investment fell sharply in developed countries and economies in transition, while in developing countries FDI flow remained stable with a minimal increase of 2%.

FDI Forms

As state borders are no longer an obstacle to investing capital in other countries due to globalization, the world is witnessing a trend of an increasing movement of goods and capital. In this regard, foreign investors seek to create economic benefits and higher profits by investing capital abroad. In order for that to be possible, it is very important that there is economic and political stability in the country in which the capital is invested, as well as the existence of an adequate economic system that will enable the transfer of profits. Foreign direct investment is most often observed depending on the way they enter a particular country (Wang et al., 2013), therefore we can distinguish:

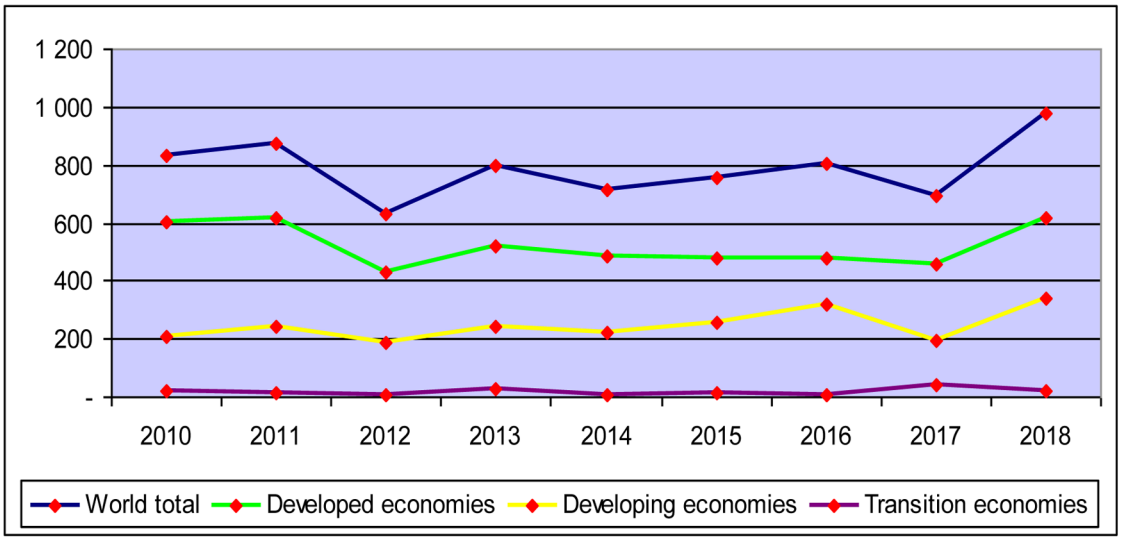
- greenfield investment,
- merger and acquisition (M&A) and
- joint venture.

Greenfield Investment

Greenfield investments are a form of foreign direct investment where the parent company invests capital in a foreign country in order to create (open) new business facilities. In order to attract greenfield investments, the country usually offers investors certain tax reliefs, subsidies and other types of incentives (Domazet, Marjanović, 2017a). Most countries that intend to attract foreign investors start from the position that the loss of income tax income is a small price to create new jobs and gain knowledge and technology, which will improve the human capital of that country.

Greenfield investments affect the increase of production capacities, contribute to the formation of the capital structure and increase employment. These investments create new production opportunities in a foreign country, as well as competition with existing local companies, and on that basis contribute to increasing their efficiency in business. Competition between countries is growing, since the country gains much more than it loses with the inflow of FDI. Greenfield investments are one of the main goals of most countries, as they create new production capacities, enable the transfer of technology and know-how and open the door of the world markets.

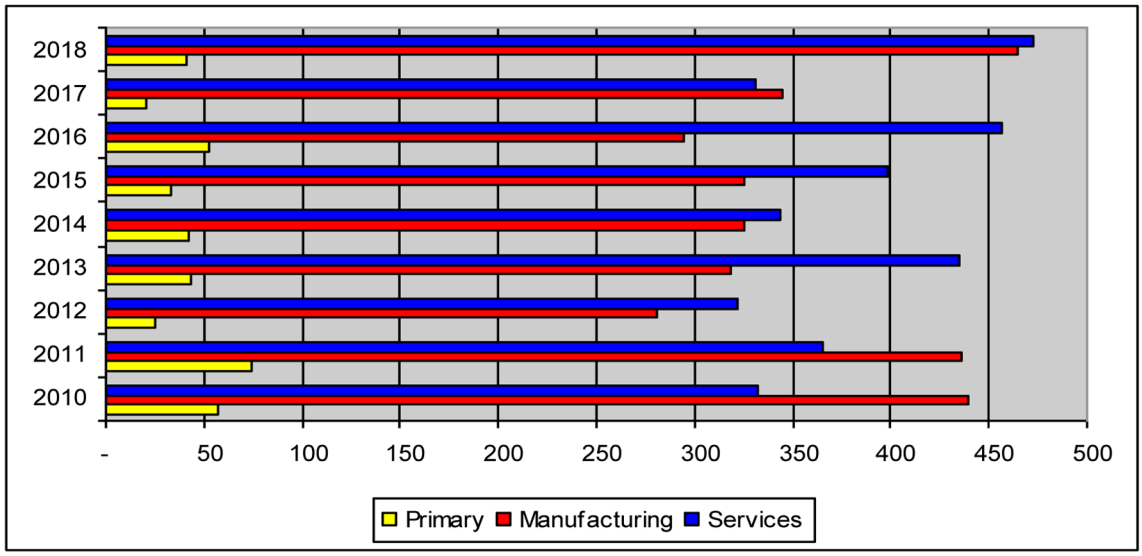
Figure 3. Value of announced greenfield FDI projects, by source, 2010-2018 (Billions of dollars)
Source: authors, based on UNCTAD



The value of greenfield investments in the nine observed years (Figure 3) was mostly constant, except in 2012 and 2017, when the inflow of greenfield investments decreased, which was reflected in the results at the global level. Of the total amount of all greenfield investments, in the observed period, the largest amount was recorded in the USA (212 billion dollars), while at the level of all European Union countries, that amount was around 274 billion dollars.

Looking at the total by years (Figure 4), the largest amount of greenfield investments went to the Services sector (3,457 billion billions of dollars), then to the Manufacturing sector (3,230 billion billions of dollars), and the smallest amount of investments went to the Primary sector (388 billions of dollars).

Figure 4. Value of announced greenfield FDI projects, by sector/industry, 2010-2018 (Billions of dollars)
Source: authors, based on UNCTAD



Within the Services sector, 75,394 greenfield investments were realized, most of which were directed to the finance and business services subsector. Within the Manufacturing sector, 69,402 greenfield investments were realized, which were mostly focused on Electrical and electronic equipment, Motor vehicles and other transport equipment, textiles, clothing and leather. The smallest number of greenfield investments was in the Primary sector with 1,079 projects implemented.

The main advantages of greenfield investments are reflected in the fact that the company has complete control over the new business, as well as that it allows the access to resources that were not otherwise available. This form of investment provides management, financial and marketing control over the invested assets (Kim, 2009). In addition, they provide protection against losing control over competitive advantages related to having one's own technology, as well as streamlining operations based on the company's corporate networking (own branch network). Greenfield investments enable a multinational company to use a centralized decision-making model. In this way, they apply a unique strategy of development and business behavior in the world.

In addition to the advantages they offer, greenfield investments also show certain disadvantages, which are reflected in high costs and a high risk of fitting into the socio-economic environment and culture of the country in which they are invested. The disadvantage of greenfield investments is that the profit from production does not return to the local economy, but goes to the economy of the country from which the multinational company comes.

Mergers and Acquisitions (M&A)

If the market is regulated and when there is a danger of increasing capacity, mergers and acquisitions occur. Through this form of investment, new capacities are reached in a very fast and easy way, sales are increased, and it is possible to maintain a certain degree of control over the new business. The merger of

two companies is a fusion of two partners in a situation where funds and operations from those companies are combined in order to establish a new legal entity. There are three types of mergers:

(a) legal merger - one of the merging companies ceases to exist, the other company takes over all the assets and liabilities of that company, and the owners of these companies become the joint owners of the new company,
(b) subsidiary merger - the associate becomes a subsidiary of the parent company; and
(c) consolidation - two or more companies merge with the aim of forming a completely new company, in which case the companies that were included in the merger cease to exist until their shareholders become shareholders of the new company.

In the case the companies are of similar size, it means consolidation, while merger means larger differences between the companies. In addition, a merger may be (a) horizontal - a connection of two competing companies with similar activities, (b) vertical - a connection of two companies where each is engaged in the production of products from a certain stage of production of one good, providing a monopoly position to the entity thus created; (c) conglomerate - represents the connection of companies that operate in different industries and do not have partnerships.

Acquisition (Brouthers & Dikova, 2010) is a business move by which a company buys most or all of ownership stakes in another company in order to take complete control. Acquisitions usually occur in a situation when a company, based on its business strategy, estimates that it is more favorable to take over the business and market of an existing company than to expand its own business. Acquisition can be done (a) by buying shares - the buyer buys targeted shares from the company's shareholders with all its assets and liabilities and (b) by buying funds - the buyer buys funds and the money received from the sale is returned and distributed to shareholders usually through dividends. Acquisition can be friendly, when the target company expresses its consent to be bought, or hostile, when there is no consent of the target company and in that case one company buys a majority stake and takes over another (Begović et al., 2008).

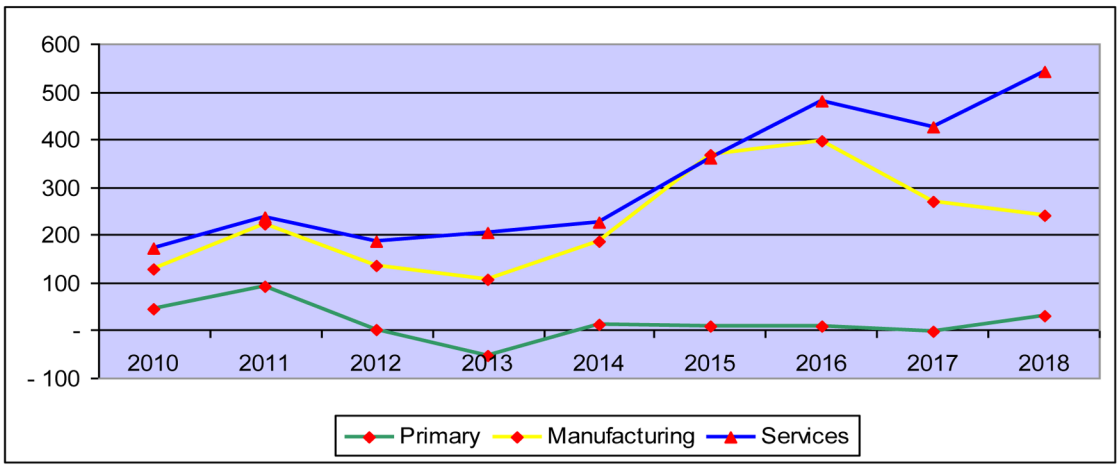
Looking at the distribution of M&A globally (Figure 5), the largest amount of these investments went to the Services sector (Finance subsector). In the Manufacturing sector, investments mainly went to the Pharmaceuticals and Food, Beverages and Tobacco subsectors.

The number of realized M&A on a global scale, in the analyzed period (2010-2018) is as follows:

– 39,985 investments / projects were realized in the Services sector,
– 12,783 investments / projects in the Manufacturing sector and
– 1,950 investments / projects in the Primary sector.

The advantage of M&A in relation to greenfield investments is reflected in the higher speed of business entry into the targeted market as well as the purchase of an already developed and activated market available to the local company. Also, the advantage is the connection, i.e. elimination, of the direct competitor, but also the reduction of investment risk, considering that the already proven business is taken over, with easier prediction of the relationship between investment and income as well as income and profit (Kim, 2009).

Figure 5. Value of cross-border M&A purchases, by sector/industry, 2010-2018 (Billions of dollars)
Source: authors, based on UNCTAD



The disadvantages of M&A are reflected in the overestimation of the target company. In such a situation target company is bought at a price that is significantly above its real and book value. Most often, this happens due to the short deadlines in which the decision must be made, the pressure of the competition, but also the unrealistic ideas of the management itself about the market perspective of the company. Employees can often have a negative attitude towards the rules of conduct in the company while, on the other hand, the owner will not accept old work habits and practices. However, the biggest conflicts occur during the redistribution of power and competencies, but also with the change in the reward system. Precisely because of all the above, it is very important for a company that intends to perform M&A to take care of all potential problems and to look at and eliminate them in an objective way.

Joint Venture

Joint Venture is a contractual connection of two or more market participants with the aim of achieving joint business benefits in the field of production, delivery of certain products, joint appearance on third markets, technology development, etc. The complexity of this investment arrangement is manifested not only in technical and technological cooperation in executing production of certain products, but also in cooperation in the field of commercialization of these products, financing of joint ventures and joint risk bearing of the complete action. Therefore, the foreign partner participates in the profit and bears the risk in proportion to the contracted obligations, without any ownership rights. In a joint venture, the time period is usually precisely defined, so that this form of partnership is limited in duration. Joint venture is formed through a series of steps, which relate to the objectives, structure and projected form of the joint venture, through products, their technical description and use, distribution and sales methods, transport, storage, testing and quality control as well as personnel and training. The basic elements of this form of investment are a common goal, joint control over the implementation of the capital transaction and a certain consistency in terms of the duration of the capital transaction.

The concept of joint venture in the practice of the European Union is equated related to the acquisition or existence of joint control over another market participant and that the result of joint investment is always a market participant over which joint control is performed. There are several different ways of acquiring joint control, namely: establishing a new market participant that will be under the joint control of its founders; acquiring joint control over an existing market participant controlled by a third market participant and acquiring joint control over an existing market participant over which one of the participants in the joint venture had exercised individual control until then (Rakić, 2017). Therefore, it is quite clear that a joint venture may arise from the establishment of a new market participant or the acquisition of joint control over an existing market participant.

There are several reasons that put companies in a situation to opt for joint ventures. One reason is that companies lack resources that go beyond what each of them individually possesses, whether it's knowledge sharing, better technology, or something else. Also, the reason for this type of cooperation is a strategic business decision that can be useful to all companies involved in the process.

Since joint ventures between two or more companies are based on trust and convergent goals, one of the main risks that companies may face is if they are partners from different cultures. This can lead to a situation of creating mistrust between partners regarding their performances and actions in a certain way or if they have divergent goals. Therefore, the concept of joint venture is effective only in a situation where there is a genuine readiness for joint action of the two companies, with mutual trust and willingness to cooperate.

SOLUTIONS AND RECOMMENDATIONS

It is of uttermost importance for each country to create the best possible position at the international market, because in that way it will succeed in attracting a sufficient amount of foreign direct investments that can provide significant economic growth and development. The country has succeeded in its intention if in a certain period of time receives quality investments, which contribute to the creation of new jobs, facilitate the transfer of technology, knowledge and skills, strengthen the competitiveness of domestic companies with the possibility of their access to foreign markets. In order for that to happen, the country cannot and must not wait for what the international market will bring to it and how it will react. It is obliged to adjust its policy to the needs of the market, and to be a magnet for foreign companies and their capital with attractive incentives.

In this regard, it is necessary to adopt an appropriate strategy that will contribute to market opening by enabling the inflow of FDI. The seriousness of each country, when it comes to FDI, is reflected in the establishment of an investor support agency, which should be a link between foreign investors and the state, through the conclusion of bilateral agreements related to capital investment and the prevention of double taxation. It is very important to define the priority investment sectors, i.e. which are the sectors / subsectors that the state considers primary for investment. A serious approach to participating in the international race for free capital is reflected in the creation of an adequate economic environment. This primarily refers to the provision of road infrastructure, functional facilities, adequate energy supply, skilled labor etc. Therefore, it is very important for the state to be active in attracting direct foreign investments, and ultimately very patient, given that the final result should be diversification and improvement of domestic production, along with economic growth and development of the country.

In order to attract direct foreign investment, the state should use certain economic measures such as financial, fiscal and other incentives. Financial incentives include funds approved to companies such as state aid and subsidies in the amount of part of investment costs, subsidized state loans, state guarantees, export credits, insurance against currency and non-commercial risks provided by the state instead of insurance companies, etc. Fiscal incentives include tax incentives such as corporate tax reductions, double taxation agreements, enabling accelerated depreciation, investment and reinvestment tax deductions in the form of foreign direct investment, exemption from import duties on capital equipment and raw materials, and export duties. In addition to financial and fiscal incentives, other incentives include increasing the profitability of investments in non-financial ways (providing services related to infrastructure on favorable terms, subsidizing other services, preferential arrangements with the government of the country in which capital is invested, special foreign exchange regimes, return concessions earnings and capital to the parent company).

In order for a country to have a good chance of becoming a recipient of foreign direct investment, it is necessary to use its chances. Therefore, it is recommended for all countries to focus their activities on more favorable taxes, customs reliefs, creation of free zones, construction of necessary infrastructure, stability of basic macroeconomic indicators (GDP, fiscal and monetary policy), as well as improving the position on the Doing Business list.

In order to attract as much foreign capital as possible, countries, especially those in development, have an obligation to focus their activities on concretizing projects that are important for the economy, especially in those areas that are estimated to be carriers of economic development. With this, among other benefits, she will let the companies know what her goals are, what she can offer and what she expects in the coming period. Special attention should be paid to investors who have already invested capital in the country in the previous period, given that there is potential for new investments in the future.

FUTURE RESEARCH DIRECTIONS

It is very important for most multinational companies to invest their capital where they will be able to access large markets in a faster and easier way (Marjanović & Domazet, 2018). In addition to the size of the market itself, the performance of domestic companies is also very important for a multinational company. The decision of a foreign investor in which country to invest its capital, is influenced by many factors. Therefore, it is important that the country does everything in its power to adapt to foreign investors, but not at the cost of collapsing the economic system or putting domestic companies in an unequal position compared to foreign companies.

Given that this chapter presented the structure and forms of foreign direct investment at the global level, their values and numbers, in the coming period, attention could be focused on FDI inflows by country within individual world regions. More precisely, the values of investments in certain industries and sectors, and what impact foreign direct investments have on a particular country, could be determined on the basis of research. In addition, it would be very useful to see what measures are used by countries that are successful in attracting large investments and what the unsuccessful countries are missing in order to be an attractive investment destination.

The research would be based on a quantitative approach with the use of research methods, i.e. survey techniques, while the method of realization of the research would be via e-mail. The survey questionnaire would consist mainly of closed-end questions that would sublimate well-known standpoints,

recommendations as well as approved incentives and measures to attract foreign investors, and would serve as an instrument for obtaining relevant information related to official viewpoints and measures taken by the investment promotion agency (or line ministry) of the country concerned. The basic set in the research would consist of 60 countries (30 developed countries and 30 countries in development). In this way, primary data would be provided, and then, using an appropriate statistical model, a quality analysis would be performed and results would be reached on the basis of which conclusions would be drawn. As a final goal, i.e. result, there should be recommendations and guidelines for economic policy makers on what needs to be done and how, in order to make the country attractive to foreign investors

CONCLUSION

FDI is considered a significant source of economic development, modernization, production, exports, employment and income growth, irrespective if it the developed or developing country is in question. FDI are of great political and economic importance, since they give a signal to others market players that the country has a good performance and economic future and that the investment can prove to be profitable. Consequently, it is very important for economic policy makers to create an appropriate investment climate that will improve the attraction of FDI.

FDI has a positive effect on increasing the efficiency of the company in which the capital is invested, while having a direct impact on improving its performance. The positive impact of foreign direct investment is reflected in the modernization of management in companies, given that foreign investors mainly come from developed market economies in which profit maximization is one of the most important goals, while modern knowledge and skills are at a very high level. Employment growth in one country is a direct consequence of a significant inflow of foreign direct investment. With higher productivity comes an increase in production which implicitly affects the economic growth of the country. Foreign direct investments have an indirect effect on reducing the balance of payments deficit, since they cause an increase in production and thus an increase in exports.

It is obvious that foreign investors have recognized all the advantages that countries offer them, and that is the reason for the growing interest in investing in those economies. Certainly, for investors, the treatment they receive in these countries, the relatively cheap labor force, the availability of raw materials as well as the size of the market itself are of crucial importance. The positive impact of foreign direct investment is most pronounced in industry, service development, trade, trade relations and the transfer of new technologies. Industries of developing countries in which foreign capital has entered usually achieve good business results and act as a stimulus for the overall economic recovery of the country.

This chapter presents a synthesis of theoretical knowledge and empirical results on foreign direct investment. Given that the topic is very topical today, it is to be expected that the findings will attract the attention of relevant entities dealing with FDI, as well as researchers and the general public who are interested in obtaining more detailed information on one place. this topic.

FDIs have one of the key roles in the economic development of the country, and that is exactly the reason why they have acquired the epithet of an economic growth generator, thanks to a numerous positive effects they have. Many countries are developing special strategies and dealing with the issue of foreign direct investment because they have realized that they can greatly contribute to the development of the economy. Therefore, it is in the interest of each country to be as competitive as possible regionally and

globally. In that way, it will be in a position to be a very attractive investment destination, which will directly affect its economic growth and prosper.

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KEY TERMS AND DEFINITIONS

Capital: Value (in the form of money, property, or human resources) which is invested in production or other economic activity with the main purpose to increase and yield the profit.

Foreign Direct Investment (FDI): Capital investment by the company or individual with the aim of performing profitable activities on the territory of one state.

Globalization: The process of economic, social, cultural, and political activity that goes beyond the boundaries of nation-states, is reflected in the transfer of knowledge and information, increased volume of world trade of goods, capital and services.

Greenfield Investment: Is a type of foreign direct investment (FDI) in which a parent company creates a subsidiary in a different country, building its operations from the ground up. In addition to the construction of new production facilities, these projects can also include the building of new distribution hubs, offices, and living quarters.

International Movement of Capital: Transfer of financial resources between entities of different countries with delayed counter-transfer for a certain period of time, with the aim of achieving certain economic and political interests of the participants in this transfer.

Investment Climate: Framework that enables foreign and domestic companies to operate and make profit in a given country.

Mergers and Acquisitions (M&A): Is a term used to describe the consolidation of companies or assets through various types of financial transactions, including mergers, acquisitions, consolidations, tender offers, purchase of assets and management acquisitions.

Multinational Company: The parent company based in one country and that is composed of a large number of companies (affiliates) that are located in a number of countries.

Chapter 7
Experiments of Basic Income in Worlds of Welfare

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ABSTRACT

Experiments of 'basic income' in worlds of welfare suggest that different countries are prone to experience the same pressures and moreover, in ways that lead them to produce the same socio-economic outcomes, resulting in their convergence toward an alternative social policy tool outside of their own traditional welfare models to deal with such problems. The implication is that no single welfare model has proven adequate to the task of reducing or reversing negative outcomes to any significant extent thus far. This is the most probable reason why each type of welfare regime has designed and implemented a 'basic income' pilot in the post-2008 crisis period. However, experimental designs and results have so far diverged from each other in interesting ways, likely reflecting the interactions between different versions of 'basic income' and the different national environments in which they have been deployed.

INTRODUCTION

The late twentieth century was characterized by growing competition, liberalization and technological progress accompanied by persistent or increasing levels of un(der)employment and poverty in developed countries. Keynesian policies were officially replaced by more conservative fiscal measures based on monetarism or supply side economics. Deregulation, budget constraints and retrenchment dominated public and academic discourse over welfare reform. National strategies adopted in response to economic, fiscal and social pressures, however, differed widely and have continued to diverge since the crisis of 2008. This raises the issue of the implications of different welfare policies, both for the distribution of income and wealth, and for the living standards of some of the most vulnerable sections of the popula-

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tion, particularly the working poor and welfare poor (Hauser et al., 2000). This chapter examines various political reactions to poverty and un(der)employment in the post-2008 crisis period and their outcomes in countries that differ significantly in their welfare regime-type.

BACKGROUND

Comparative political economy often uses typologies to describe and explain the institutional similarities and differences between modern nation-states. The theory of welfare state regimes developed by Esping-Andersen (1990) was one of the first to shift attention to the "combined, interdependent way in which welfare is produced and allocated between state, market, and family" (Esping-Andersen, 1999, p. 34f). As a classification scheme, it allowed for the identification of dimensions of variation within welfare regimes, dimensions that were narrow and explicit enough to be operationalized in an assessment of four ideal welfare cases – the typical liberal, conservative-corporatist, social democratic and southern European welfare regime-types.

Similar to the typology of welfare states, the varieties of capitalism framework popularized by Hall and Soskice (2001) highlighted systematic differences in the structural characteristics of countries. However, unlike welfare regime theory, it used market and strategic coordination to classify countries into three ideal types of capitalism – the liberal market economy, the coordinated market economy and the Mediterranean economy. The varieties typology complements welfare-regime classification in that liberal market economies overlap with liberal welfare states, coordinated economies can be embedded within conservative-corporatist and social democratic welfare states and the Mediterranean economy complements the southern European welfare state (Schroder, 2013).

Esping-Andersen's typology of different welfare states bears strong resemblance to other theories that have been used to classify developed countries into different poverty or social assistance regimes (Leibfried, 1992; Eardley et al., 1996).

The critical factor in categorizing poverty regimes is the relationship between work and welfare as expressed in the social rights of citizens. Accordingly, Leibfried (1992) identified four ideal types of poverty regimes: Scandinavian, Bismarck, Anglo-Saxon and Latin Rim. They are all based on different policy paradigms – modern, institutional, residual and rudimentary. Within each poverty regime, welfare institutions serve different functions in combatting poverty and un(der)employment.

The Scandinavian welfare states (such as Finland) are characterized by universalism and the promotion of full employment, with the welfare regime serving as "the employer of first resort" (Leibfried, 1992, p. 140), especially for women. Labour market entries or non-exits are subsidized by and mediated through the welfare state. The right to work and participation in the labour market is the primary focus of the Scandinavian model (Kennett, 2001), with strong work incentives built into social assistance schemes. Bismarck poverty regimes (such as the Netherlands) rely on 'paying off' social problems by subsidizing exits or non-entries from the labour market through the substitution of a right to social security for a right to work. The right to social security is earned through past contributions. In contrast to the Scandinavian regimes, Bismarck welfare states are "not the employer but the compensator of first resort" (Leibfried, 1992, p. 140). In Anglo-Saxon welfare states (such as Canada and the United States), entry into the labour market is facilitated less by subsidization or training policy and more through coercion via very low level of benefits and negative sanctions (Leibfried, 1992). The Latin Rim or poverty regimes of

Southern Europe (such as Spain) are characterized by a lack of an articulated social minimum guarantee and a right to welfare (Leibfried, 1992; Kennett, 2001).

Lodemel and Schulte (1992) argue institutional arrangements to support the poor and un(der)employed in poverty regimes are marked by 'internal divisions', most notably between social insurance schemes and means tested social assistance programs. In the Scandinavian welfare states, for example, there is a division of social assistance and social insurance, as generous social insurance benefits leave a small role for social assistance. Unlike many social insurance programs, social assistance is administered at the local level with significant discretion and emphasis on social work treatment. The residual nature of social assistance within Scandinavian countries has two implications: it plays an insignificant role within the welfare state and contributes to the stigmatization of social assistance benefits, resulting in a 'welfare paradox' (Lodemel & Schulte, 1992).

In contrast to the poverty regime typology, which keeps close to Esping-Andersen's classification model (of policies tailored for workers), the comprehensive empirical work of Eardley et al. (1996) has produced five different clusters of 'social assistance regimes' for the poor: welfare states with integrated safety-nets, dual social assistance, citizenship-based but residual assistance, rudimentary assistance and decentralized discretionary regime. They are all based on three dimensions: expenditure on social assistance and the number of beneficiaries, program structure (e.g., centralized, local, rights or discretionary, individual or family, liberal or means testing, etc.) and generosity. Social assistance has several distinguishing features. Benefits are a last resort, coming into play when other means have been exhausted and adequate income is lacking. Means testing is the norm, reflecting a political or moral judgment rather than an objective assessment of a minimum standard of living. Finally, social assistance is tax financed and noncontributory.

Welfare states with integrated safety nets include countries such as Canada where income support for the poor is relatively generous (around social insurance levels) and rights based with some work incentives. In these countries, many social assistance claimants have weak prior schemes, so assistance occupies an important role in the welfare state. With the exception of healthcare, there is no universal coverage of social risks. These regimes provide basic social citizenship for the poor (Saraceno, 2002; Moreira, 2008).

The citizenship based but residual assistance regime includes countries such as Finland where there is a single general program with relatively high benefits and strict means testing. There are few social assistance claimants due to strong prior schemes. There is also an emphasis on active labour market policies and local discretion in the delivery of schemes. In this type of model there is substantial social citizenship for the poor (Saraceno, 2002; Moreira, 2008).

Regimes of dual social assistance provide categorical benefits for specific groups. Local discretion exists but is placed within a unified national regulatory framework. Benefit levels vary considerably among countries, from generous to below average. The Netherlands was initially placed within this cluster but is now considered a residual assistance regime with other Nordic countries (Saraceno, 2002; Moreira, 2008).

The rudimental assistance regime includes countries such as Spain and Italy where programs cover selected groups, particularly the elderly and disabled, otherwise discretionary relief is provided through municipalities and charitable bodies and benefits are kept low, thus there is rudimentary citizenship for the poor (Saraceno, 2002; Moreira, 2008).

What all these attempts to develop distinct regime clusters have in common (with the partial exception of the social assistance typology) is that Canada/US, Finland, the Netherlands and Italy/Spain are treated

as examples of different regime-types. If these countries have institutional structures that distinguish them from each other, then we should expect to see marked variations in their levels of poverty, un(der) employment and other socio-economic outcomes. This is because the specific institutional characteristics of poverty and social assistance regimes are ultimately connected to, and, responsible for the well-being of their respective working and welfare poor. At the same time, given the distinctive features and impacts of each regime-type, we should expect to see differences in the design (e.g., selectivity, organization, entitlement rules and benefit levels) and outcomes of any new welfare oriented policies implemented by countries since the above typologies were proposed.

TESTING DIVERGENT MODELS OF WELFARE

Welfare regimes and varieties of capitalism are portrayed as more or less resilient to internal and external pressures such as globalization, liberalization and economic crisis. Several studies, for example, have tried to show how the core institutional and policy making characteristics of different regime-types have remained firmly in place, even in the face of common challenges (Stephens, Huber & Ray, 1999). It follows that the trajectories of poverty and social assistance regimes are also path dependent to the extent that they correspond to specific regime features. The general idea is that enduring sources of support for these regime-types exist such that change in social policies and outcomes are mostly incremental. Regime-types are stable and unlikely to converge toward a single organizational structure or pattern of behavior due to several impediments, ranging from the welfare state as status quo to the high political (especially electoral) costs of radical change. In this way, convergence (a process whereby differences between regime-types become less discernible over time) is unlikely to happen (Van Kersbergen, 2000).

Two concerns, however, should be mentioned with respect to divergent theories that predict continuing persistence. First, cross-national comparative research that documents the resistance of regime-types to change or convergence depends predominantly on data covering the pre-2008 crisis period. However, it is possible that homogenizing pressures on the core programs of poverty and social assistance regimes have been building up since then. It is important, therefore, to test those existing theories against more recent data. Second, previous studies have paid more attention to diverging institutional arrangements, policies and practices affecting welfare outcomes than to outcomes themselves. This had led to the relative neglect of the socio-economic effects of policies on important or available indicators of well-being. Third, divergent understandings tend to focus so much on institutional mechanisms of persistence (e.g., path dependency, powerful defenders, electoral risks, lock-in, etc.) that evidence of similarities and change is difficult to recognize. It may be that in light of contemporary developments, the resilience argument is taken too far. Indeed, there may be more evidence of convergence than divergence in socio-economic outcome measures (Coates, 2005), with the working and welfare poor faring similarly in different poverty and social assistance regimes.

Country Cases, Indicators, Measurements

The empirical dataset below is intended to test divergent theories of welfare development through a comparison of socio-economic outcomes connected to poverty and un(der)employment in different regime-types before and after the 2008 crisis. More than ever before, the recent downturn raised questions about the persistence of cross-national differences in the face of common external pressures and

challenges. What is the empirical evidence for divergence between regime-types identified in the comparative literature? To what extent are socio-economic outcomes still governed by the logic of national peculiarities? To what extent are the forces of accelerating globalization, liberalization and economic crisis capable of effectively pushing all countries toward the same trends or outcomes? Did some regime-types return to their pre-crisis levels or prove more resistant to negative outcomes than others? Did any distinct regime-cluster exhibit an entirely different performance?

To answer these questions, a handful of distinct country cases are grouped into four categories, each characterized by four different types of overlapping regimes as identified in the literature. Canada and the United States are examples of the liberal welfare state, liberal market economy, Anglo-Saxon poverty regime and social assistance regime with integrated safety nets. The Netherlands is an example of a corporatist-conservative welfare state, coordinated market economy, Bismarck poverty regime and citizenship based but residual social assistance regime. Finland is an example of a social democratic welfare state, coordinated market economy, Scandinavian poverty regime and residual social assistance regime. And Italy and Spain serve as examples of the ideal southern European welfare state, Mediterranean economy, Latin Rim poverty regime and rudimental social assistance regime (Esping-Andersen, 1990; Hall & Soskice, 2001; Leibfried, 1992; Eardley et al., 1996).

Similarities and differences in social welfare across different yet overlapping and intersecting regime-types are assessed using the following 12 indicators from the OECD database: the incidence of *low-pay* (or the share of workers making less than two-thirds of median earnings), the rate of *inequality* post taxes and transfers (as measured by the Gini coefficient which ranges between 0 (a case of perfect equality where everyone has the same income) and 1 (a case of perfect inequality where one person has all the income and everyone else has zero)), the *poverty rate* (or the ratio of people whose incomes fall below half the median household income of the total population as measured before taxes and transfers), incidence of *involuntary part-time employment* (or the share of involuntary part-timers as a percentage of part-time employment), the *harmonized unemployment rate* (HUR) (or the numbers of unemployed people as a percentage of the labour force, with 'unemployed' referring to those of working age who are without work, but are available for work, and have taken measures to obtain employment), the incidence of *unemployment duration of one year or more* (also known as the long-term unemployment rate), the incidence of *marginally attached workers* (those aged 15 and over, neither employed nor actively searching for work, but are willing to take up a job), *short-term job tenure* of less than 12 months (percentage of employees working for their employers for less than one year, valuable for assessing fluidity and turnover in the labour market), *full-time employment* (share of employees employed full-time), *job strain* or the quality of the working environment for low-skilled workers, which is a multidimensional indicator that considers two main types of job demands, namely i) time pressures, which include long working hours, high work intensity and working time inflexibility and ii) physical health risk factors such as dangerous work (e.g. being exposed to loud noises, high/low temperatures, vibrations) and physically exhausting work (e.g. carrying/moving heavy loads, painful/tiring work positions) as well as two main types of job resources, namely i) work autonomy and learning opportunities which include the freedom of employees to select and change their work tasks/methods and formal (e.g. training) and informal learning opportunities at the workplace and ii) social support at work which measures the extent workers receive support from coworkers and supervisors, *household indebtedness* (defined as all liabilities that require payment or payments of interest or principal to the creditor at a future date) and *trade union density* (or the ratio of wage and salary earners who are union members, divided by the total number of wage and

salary earners, which is calculated using administrative data except for Australia, the United States and Sweden which use survey data) (OECD, 2019a, b, c, d, e, f, g, h, i, j, k, l).

The choice in indicators was guided by an interest in processes linked to poverty and un(der)employment given the type of regime a country is associated with is supposed to be consequential for determining the welfare of its most vulnerable groups. However, not every single indicator is representative of vulnerable segments of the population, for example, trade union density and full-time employment. These indicators were included for three reasons. First, there are a limited number of indicators directly related to poverty and un(der)employment in the OECD database. Second, it is important to cover a wider range of processes integral to national economic progress and social well-being given the emphasis of social cohesion (as a social policy goal) in all regime-types. Third, such economic indicators have implications for the working and welfare poor insofar as a country's variety of capitalism is consequential for its welfare needs and programs.

The above indicators can be used to measure convergence or divergence in welfare outcomes in the pre- and post-crisis periods by comparing: the overall direction of change in the indicators themselves (e.g. socio-economic outcomes improved or deteriorated from one year to the next), the numerical values of the indicators (e.g. values very similar to or different from each other) and percent changes in the numeric values.

Table 1. Low-pay, inequality and poverty in worlds of welfare

Indicator Year	Low-Pay 2005	Low-Pay 2015	Inequality 2005	Inequality 2015	Poverty 2005	Poverty 2015
Liberal Welfare, Liberal Market, Anglo-Saxon & Integrated Safety Net						
Canada	21.34	22.18	0.315	0.318	0.248	0.253
US	23.96	25.02	0.380	0.390	0.263	0.266
Conservative Welfare, Coordinated Market, Bismarck & Residual						
Netherlands	13.97 (2006)	14.5	0.284	0.288	0.248	0.267
Social Democratic, Coordinated Market, Scandinavian & Residual						
Finland	6.91	7.77	0.265	0.260	0.306	0.341
Southern Welfare, Mediterranean Economy, Latin Rim & Rudimental						
Italy	9.31 (2006)	7.63 (2014)	0.324	0.333	0.348	0.350
Spain	12.29 (2006)	14.59 (2014)	0.324 (2007)	0.345	0.272 (2007)	0.371
6 Country Averages	14.63	15.28	0.315	0.322	0.281	0.308

Source: (OECD, 2019a, b, c)

The incidence of low-pay increased from the pre-crisis period (2005) to the post-crisis period (2015) in five out of six countries, namely Canada, US, Netherlands, Finland and Spain, with only Italy seeing a decrease. In terms of the direction of change (i.e., better or worse outcome), almost all countries experienced a deterioration in social welfare in the post-crisis period. This means all divergent models proved to be relatively inconsequential in countering an increase in the prevalence of suboptimal wage contracts, although percent change increases were not that high, ranging from 3.80% to 18.71%. The

numeric values of low-pay in different regime-types were somewhat consistent with predictions in the literature. Canada and the US had the highest incidences of low-pay during both years. Their rates were also very similar, pointing to within-regime coherence. However, the low-pay rates of the Netherlands and Spain, which are classified into different regime-types, were similar in the pre and post-crisis years, thereby blurring the lines between their two groups, although Spain's percent change increase (18.71%) was much higher than the Netherland's increase (3.80%) which is more in line with divergent expectations. While Finland was supposed to have the lowest rates, it had very similar numeric values as Italy, which comes as a surprise given the differences between the two groups in terms of welfare provision. In 2015, the share of employees receiving less than two-thirds of median earnings was between 15 and 25% in five countries, relatively high and indicating the prevalence of low-skilled, low-quality and unstable employment in different regime-types.

Similarly, inequality increased from 2005 to 2015 in five out of six countries, namely Canada, US, Netherlands, Italy and Spain, decreasing only in Finland. Social welfare (as measured by inequality) decreased in most countries in the post-crisis period. Every regime-type, with the exception of Finland's, experienced a worse outcome, showing little or no difference between those three cluster groups in terms of their impact on the overall direction of change. As for similarities or differences between numeric values, inequality rates varied somewhat between Canada and the US, but they were still the highest (along with Italy and Spain) out of all countries, as predicted by divergent theories. Finland had the lowest rate and the Netherlands was somewhere in the middle, as expected. In 2015, the Gini coefficient in four countries was nearly over 0.320, indicating moderate inequality.

The poverty rate increased in all six countries over the crisis period, making all divergent models indistinguishable in terms of their capacity to reverse the negative trend of deprivation of material resources for significant sections of their populations. Surprisingly, Finland had a higher poverty rate than Canada, the US and the Netherlands, even though Finnish social assistance is supposed to be relatively generous with moderate means testing. This means Finland had the third highest share of people whose incomes fell below half the median household income of the total population in the post-crisis period. Finland also had the second highest percent change increase (11.44%) after Spain (36.40%). Furthermore, the numeric values of the US and the Netherlands were almost identical in 2015 while Canada's rate was exactly the same as the Netherland's in 2005, which runs contrary to divergent thinking, at least with respect to real-life outcomes.

All six countries experienced an increase in involuntary part-time work from 2005 to 2015. The share of involuntary part-timers as a percentage of part-time employment was over 25% in Canada and Finland in 2015, making their two regime-types difficult to tell apart in terms of their varieties of capitalism. The significant difference between the rates of Canada and the US made for very little within-regime coherence which we would expect. However, both Italy and Spain had similar rates in 2005 and 2015. Alarmingly, over 63% of part-timers in Italy and Spain were working less hours involuntarily in the post-crisis period. There were also significant percentage change increases in the US (53.70%) and the Netherlands (104.77%).

The harmonized unemployment rate increased in all six countries, remaining less than 10% in all regime-types in 2005 and 2015 except for the last category whose countries experienced significant percent change increases in the post-crisis period (Italy: 54.21% and Spain: 140.78%). Still, these unemployment rates understate the true extent of job insecurity in these countries. To be considered employed, for example, only a few hours of work per week are needed, so employment rates include those precarious workers who want more hours or pay, including temporary, part-time and low-wage

Table 2. Involuntary part-time work (IPTW), harmonized unemployment rate (HUR) and unemployment of one year or more (U1+) in worlds of welfare

Indicator Year	IPTW 2005	IPTW 2015	HUR 2005	HUR 2015	U1+ 2005	U1+ 2015
Liberal Welfare, Liberal Market, Anglo-Saxon & Integrated Safety Net						
Canada	25.5	26.2	6.76	6.91	9.5	11.5
US	5.4	8.3	5.07	5.29	11.8	18.7
Conservative Welfare, Coordinated Market, Bismarck & Residual						
Netherlands	4.2	8.6	5.88	6.89	40.2	43.6
Social Democratic, Coordinated Market, Scandinavian & Residual						
Finland	22.9	25.8	8.40	9.38	24.9	25.1
Southern Welfare, Mediterranean Economy, Latin Rim & Rudimental						
Italy	38.4	63.9	7.71	11.89	49.8	58.9
Spain	32.0	63.4	9.17	22.08	24.4	51.6
6 Country Averages	21.4	32.7	7.16	10.41	26.77	34.9

Source: (OECD, 2019d, e, f)

employees. To be considered unemployed, a person would also have to be unable to find any employment at all and actively searching for work, even if they understood no suitable jobs were open to them (Jackson & Thomas, 2017). Nevertheless, we see that regardless of their variety of capitalism or world of welfare, all countries were slightly or much more worse off in the post-crisis period than before it, including the least expected country (Finland).

The incidence of unemployment duration of one year or more increased in all six countries. By 2015, the share of long-term unemployed persons out of all the unemployed was almost 19% in the US, 43% in the Netherlands, 25% in Finland and over 51% in Italy and Spain. There were significant percent change increases in the US (58.47%) and Spain (111.48%). Somewhat inconsistent with divergent predictions, Finland with its most generous social security benefits, had a lower long-term unemployment rate than the Netherlands which also has a fairly generous safety net for the unemployed, combined with active labour market policies, at least up until 2008, when it was forced to make cuts to unemployment benefits due to the steep jump in unemployment then and subsequent fiscal pressures to reform. Perhaps most seriously, Italy's long-term unemployment rate was at least 50% during both years, meaning half of the unemployed population had been without work for one year or more both before and after the last crisis.

The incidence of marginally attached work increased in four out of six countries, namely the US, Finland, Italy and Spain, decreasing only in Canada and remaining the same in the Netherlands. There were significant percent change increases in Finland (43.24%), which had the highest share of unemployed persons not actively searching for work but willing to take up a job, as well as Italy (48.48%).

Short-term job tenure increased only in the Netherlands by a significant percent change of 86.67%. However, the share of employees working for their employers for less than one year remained relatively high in four countries, ranging approximately from 17 to 20% in 2015. Moreover, countries in different regime-types had similar numeric values in the post-crisis period, meaning the variety of capitalism was inconsequential for the prevalence of short-term job tenure.

Table 3. Marginally attached work (MAW), short-term job tenure (STJT) and full-time employment (FTE) in worlds of welfare

Indicator Year	MAW 2005	MAW 2015	STJT 2005	STJT 2015	FTE 2005	FTE 2015
Liberal Welfare, Liberal Market, Anglo-Saxon & Integrated Safety Net						
Canada	2.4	2.2	21.8	20.0	82.1	81.9
US	1.0	1.2	N/A	N/A	87.2	86.7
Conservative Welfare, Coordinated Market, Bismarck & Residual						
Netherlands	3.8	3.8	9.0 (2006)	16.8	63.9	60.4
Social Democratic, Coordinated Market, Scandinavian & Residual						
Finland	3.7	5.3	20.6	19.1	89.5	87.8
Southern Welfare, Mediterranean Economy, Latin Rim & Rudimental						
Italy	3.3 (2010)	4.9	11.8	11.1	84.3	80.1
Spain	5.2	4.4	23.6	18.1	89.3	84.7
6 Country Averages	3.23	3.63	17.3 6	17.02	82.72	80.27

Source: (OECD, 2019g, h, i)

The share of employees working full-time decreased in all six countries in 2015 as compared to 2005. In most countries, about 80 to 88% of the labour force were working full-time, except in the Netherlands where 60.4% of the working population was employed on a full-time basis. The general decrease in standard employment relationships has negative implications for the poor and un(der)employed insofar as the welfare state's different redistributive functions, such as poverty reduction, limiting income inequality and providing a certain level of income protection against risks, are primarily (but not exclusively) financed out of payroll taxes from full-timer workers, at least in some countries such as the Netherlands (Hemerijck & Schludi, 2000). Moreover, fewer full-time positions could translate into more precarious employment relationships such as part-time, temporary, fixed-term, seasonal and on-call work. These types of contracts are generally characterized by lower-pay, hours, work conditions and benefits, putting people at greater risk of being trapped in poverty and un(der)employment over the course of their lives.

Job strain for low-skilled employees increased in four out of five countries, namely the US, Netherlands, Finland and Italy, decreasing only in Spain whose rate was 42% in 2005. The rate of job strain remained moderately highly in all regime-types in the post-crisis period, ranging from 25 to 36%, meaning at least one-quarter of all low-skilled employees reported: long working hours, high intensity work, working time inflexibility and dangerous workplace conditions. The deterioration in workplace conditions in almost all countries with similarly, high rates make it difficult to distinguish between the different divergent models. Moreover, it comes as a surprise that the Finnish variety of capitalism performed very similar to the American variety of capitalism, given the emphasis on multi-tier bargaining over working conditions in Finland. Generally speaking, poor working environments are known to cause health problems, reduce performance or morale, lead to higher absenteeism, create disincentives to work and result in short or long-term unemployment spells. They are also associated with less pay and low job mobility. Such arrangements typically have little success in boosting the working poor out of poverty and/or off welfare. For this reason, some experts believe the majority of poor do not need welfare reform as much as substantial changes in their workplaces (Akabas & Kurzman, 2005).

Table 4. Job strain, household debt and union density in worlds of welfare

Indicator Year	Job Strain 2005	Job Strain 2015	Household Debt 2005	Household Debt 2015	Union Density 2005	Union Density 2015
Liberal Welfare, Liberal Market, Anglo-Saxon & Integrated Safety Net						
Canada	N/A	N/A	139.6	173.5	30.4	29.4
US	24.41	25.86	135.6	109.1	12.0	10.6
Conservative Welfare, Coordinated Market, Bismarck & Residual						
Netherlands	20.87	31.11	250.5	250.6	21.0	17.7
Social Democratic, Coordinated Market, Scandinavian & Residual						
Finland	19.24	25.39	99.2	129.6	70.4	66.5
Southern Welfare, Mediterranean Economy, Latin Rim & Rudimental						
Italy	19.78	27.05	70.0	87.2	33.3	35.7
Spain	42.26	35.99	128.7	121.7	14.5	13.9
6 Country Averages	25.31	29.08	137.27	145.28	30.27	28.97

Source: (OECD, 2019j, k, l)

Household indebtedness increased in four out of six countries, namely Canada, Netherlands, Finland and Italy, decreasing in the US and Spain. Household debt has generally increased since the 1980s, remaining relatively high in most countries. It played a central role in the global financial crisis, particularly in the US. The time it takes to repay a household's debt is now sometimes more than twice as long as it was decades ago. This means households must devote more of their income to debt repayment, and in doing so, deplete their savings and take on more loans or credit card debt to supplement their lost income to repayments. This often creates an unsustainable debt spiral (Rycroft, 2017).

Union density decreased in five out of six countries, namely Canada, US, Netherlands, Finland and Spain, increasing only in Italy. Falling union membership is a contributory factor to low-pay work, poverty, income inequality and precariousness (Smith, 2003). There were significant differences between the union density figures of Canada and the US, suggesting little within-regime coherence. The same can be said of Italy and Spain. As expected, however, Finland had the highest union membership in both periods. Altogether, it appears unions have in most countries suffered from a shrinking membership base, partly due to the decline of manufacturing and growth of service sectors.

Policy Convergence

Overall, there was unidirectional convergence toward negative socio-economic outcomes in all the countries examined. Different national models, therefore, were not distinguishable in terms of their impact on the overall direction of change as nearly all countries exhibited worse outcomes in the post-crisis period for most indicators. Gathered data suggest that in many areas of socio-economic life, the above countries, despite having different welfare states, varieties of capitalism, poverty and social assistance regimes, faced difficulties in curbing or reversing negative trends, even several years after the 2008 crisis.

This is the most probable reason why they all searched for and experimented with an alternative social policy program, broadly termed 'basic income', after 2015 with the intention of replacing or

supplementing their existing government programs, which were designed (but had so far failed) to mitigate socio-economic problems such as poverty and un(der)employment. Interest in experimentation with basic income in the post-crisis period, therefore, was motivated in part by the persistence of negative trends and the dissatisfaction of different regime-types with their existing welfare and labour market arrangements. The countries examined above represent a full range of welfare services, labour markets and income transfers, which means they had exhausted all the possible political and economic configurations (remedies) available to them. No single national model appeared adequate to the task of reducing or reversing negative socio-economic outcomes. Hence, divergent models of welfare varying in names and details, all converged towards a potentially new policy solution to the problem of poverty and un(der)employment.

This alternative policy approach, an income-tested and household-based income (sometimes called a basic income), gained significant political strength after the 2008 crisis, with Canada, US, Netherlands, Finland, Italy and Spain all expressing a burgeoning interest in experimentation with it in 2016 alone, leading Guy Standing to dub it as "the year of the pilots" (Standing, 2016).

Use of the term 'basic income' in these countries, however, should not be confused with the idea of a true basic income. According to Basic Income Earth Network, the basic income is "a periodic cash payment unconditionally delivered to all on an individual basis, without means-test or work requirement" (for full definition, see Torry, 2019). Perhaps for this reason, the proponents of the Netherlands experiment avoided the use of the term basic income altogether, with researchers in Utrecht opting to call their proposed pilot 'Know What Works' instead. Nonetheless, in the context of recent policy experiments, the idea of basic income has come to mean essentially a variety of negative income tax proposals which are typically more generous and less conditional than existing welfare programs.

The following sections provide a review of three recent policy experiments with 'basic income', which were designed, implemented and evaluated in three countries classified as different regime-types, namely Spain, Finland and Canada. We focus on these three cases for several reasons. First, they exhibited mostly negative outcomes across 12 indicators (Canada: 9, Finland: 10 and Spain: 8). Second, their experiments have concluded, with preliminary results available in English for discussion, analysis and comparison. Third, their pilots were somewhat comparable in size and scope, allowing policy makers and researchers to draw important lessons on how different 'basic incomes' can successfully address poverty and un(der)employment in different national environments.

Spain, Barcelona

The global financial crisis had a disproportionate impact on Spain, leading to widespread unemployment, inequality and poverty, particularly among the youth. In 2015, the national unemployment rate (22.08%) remained one of the highest in the European Union. Although Barcelona, the country's second largest city, generates 30% of Catalonia's total GDP, income inequality became an increasing problem with obvious negative consequences. The rate of poverty in Barcelona rose sharply, while unemployment increased from 5.7% in 2008 to 18.7% in 2015. Housing prices increased by 16.5% in 2016, making access to affordable housing difficult for the city's low-income population (Colini, 2017).

When the Spanish government began to impose deep cuts after the crisis, the public responded by taking to the streets, paving the way for the 'indignados movement,' a popular resistance campaign that saw more than 6.5 million Spaniards across 60 communities participate in protests against austerity

measures. The severe nature of the crisis, as well as the central government's response, led to social upheaval, creating a need for alternate policy solutions to address economic and social woes.

As part of her broader agenda to experiment with different models of social security, the radical leftist mayor Ada Colau, who was elected in 2015, set in motion plans to test a guaranteed income floor. The B-Mincome experiment was partly designed to alleviate the severe poverty that had inflicted parts of Barcelona, going beyond the policy options of the traditional welfare state model (Colini, 2018).

The B-Mincome pilot had an overall objective to 'fight poverty and social exclusion'. The experiment provided financial support to 1,000 households, assigned at random, for a period of three years. Evidence was collected during the final two years. An additional 1,000 participants were chosen to be part of a control group (Barcelona City Council, 2019).

B-Mincome involved several types of participatory programs for recipients, all of whom were entitled to receive financial benefits. They included an occupation and education program (150 households), a social and cooperative economy program (100 households), a guaranteed housing program (24 households), and a community participation program (276 households) (City of Barcelona, 2019). Recipients from 550 households received funding from one of these four programs, while the remaining 450 households received financial support without involvement in any of them (Basic Income Earth Network, 2017) Those 450 households were further divided into a means-tested group, and another in which recipients received the full amount of basic income regardless of whether they worked or not during the pilot (McFarland, 2017).

Each household was placed into one of 10 treatment groups in association with the four participation groups. Members from the various groups were further subdivided into the following categories: a) conditional – recipients were required to actively participate in one of the active policies as a requirement; b) non-conditional – participation in one of the active policies was not required; c) limited – additional income earned by the household was subject to commensurate reductions in support; and d) unlimited – households were permitted to keep any additional income earned without a reduction in benefits (City of Barcelona, 2019).

Funding ranged from €100 to €1,676 monthly per household, depending upon financial circumstances, household composition, and which treatment group recipients belonged to (Basic Income Earth Network, 2017). In this way, B-Mincome sought to examine how a variety of social programs delivered in conjunction with financial payments could improve the lives of low-income individuals.

The preliminary results of the pilot were promising. The evaluators saw the "probability of reporting a high level of wellbeing of 7 or more out of 10, increase[d] by 11 percentage points on average." This was complimented by a significant reduction in the level of material deprivation participants felt and improvements in their general satisfaction, as many found it easier to have their basic needs satisfied on the pilot (City of Barcelona, 2019).

When it came to quality of sleep, B-Mincome recipients in all modalities, with the exception of the conditional and limited groups, reported minor, although not statistically significant improvements. However, evaluators noted substantial improvements in the quality of sleep of households participating in the pilot. They argued the positive changes were likely the result of "a reduction in the level of stress associated with a reduction in financial difficulties in covering their basic needs" (City of Barcelona, 2019).

With regards to mental health, B-Mincome was effective in decreasing the probability of mental illness development, as a reduction of 9.6 percentage points was observed. Considering a high percentage of participants were at risk of developing a mental illness (83% of the control group), this finding sug-

gests there may be "direct and indirect savings for public resources in healthcare, hospital and pharmacy services" (City of Barcelona, 2019).

Where issues involving financial well-being were concerned, recipients experienced a positive impact of nearly 1.4 percentage points, with the non-conditional modality displaying more improvements than the conditional group. However, when recipients were asked about their ability to pay for an unexpected expense, the positive impact of basic income was low and not statistically significant in any of the participation groups. The results also pointed to a decline in the need to make money in ways not related to employment such as renting out rooms in one's household (City of Barcelona, 2019).

In terms of social involvement, participants in all the modalities reported similarly distributed and statistically significant improvements in their ability to enjoy social leisure activities. Evaluators also found that the probability of participants undertaking volunteer work was positive, although not statistically significant. This finding may be connected to the community participation policy incorporated into the pilot (City of Barcelona, 2019).

As for housing security, the pilot appears to have had no significant impact on any of the participation groups. The qualitative component of the program, however, revealed that housing affordability remains one of the central concerns of participants (City of Barcelona, 2019).

Food security was one of the areas where B-Mincome recipients reported the most significant improvements. Participants from each of the groups saw a significant reduction when it came to worrying about having enough to eat, with decreases between 16 and 18 points evenly distributed across the modalities. Additionally, respondents saw a considerable reduction in the probability of going to bed hungry, at about 8 to 10 percentage points between the groups (City of Barcelona, 2019).

In terms of employment, researchers reported an 8.6% lower probability of working than the control group (City of Barcelona, 2019). The report speculates that this result is more pronounced among the conditional and active policy groups due to the 'lock-in-effect' of taking part in work and community programs during the pilot (City of Barcelona, 2019).

Recipients also indicated a small 1.5% increase in the probability of looking for work, which is not statistically significant. Participants also noted a reduction, although not statistically significant, in the probability of undergoing training while receiving basic income. The results suggest that the lock-in-effect may have disincentivized recipients from pursuing schooling or training opportunities (City of Barcelona, 2019).

Overall, B-Mincome appears to have improved the quality of life and well-being of recipients, while offering hope for a better future. This is evidenced by a reduction in stress among participants, who had more resources, and opportunities to engage in their communities. The active policies also proved successful, with the educational and cultural experience groups reporting the most positive outcomes. While concerns over financial and housing insecurity remained for some participants, this was to be expected given the circumstances many were facing before enrolling into the pilot (City of Barcelona, 2019).

Finland

Finland weathered the global financial crisis better than many of its country peers. Yet, its national unemployment rate was over 9% in 2015, and almost a quarter of the unemployed had been without work for one year or more. These problems created a window of opportunity to test an alternative social policy to reconfigure employment incentives, paving the way for Finland's own version of a basic income experiment.

The national pilot was proposed by Prime Minister Juha Sipilä as part of his government's 'services to be based on customer needs' initiative and was consistent with its objective to introduce a culture of policy experimentation. For policy-makers concerned with unemployment and welfare provision, basic income held the potential to reform the country's social security system in order to respond to the changing complexion of Finnish employers, to reduce bureaucracy, and to make more efficient use of government resources (Ministry of Social Affairs and Health, 2016).

Providing a guaranteed income floor was viewed as a way to reform a social security system which had been "gradually built up over many decades" under different circumstances from the economic environment confronting Finland in the twenty-first century. Given the prevalence of atypical work arrangements, the country's social security system was seen as "no longer meet[ing] modern requirements." Researchers believed that basic income could provide "flexibility in allowing people to accept a job without losing their benefits", thus eliminating disincentives for social assistance recipients to pursue paid work out of fears of losing their support (Kela, 2019). The Social Insurance Institution of Finland, which was commissioned to design and administer the pilot, claimed its primary objective was to "understand how receiving a basic income affects the income and employment status of the participants" (Kela, 2019).

The experiment involved 2,000 individuals between the ages 25 and 58 who had been receiving a labour market subsidy or basic unemployment allowance for reasons other than a temporary layoff. All participants were selected at random in December 2016. Each participant received payment from January 2017 until December 2018 in the amount of €560 per month. Those recipients who managed to find employment during the pilot were entitled to keep receiving basic income support until the end of the program. Payments were guaranteed regardless of whether participants were actively looking for work or not (Kela, 2019).

The preliminary results of the Finnish pilot show a mixture of outcomes for participants. In terms of satisfaction with life, which was measured on a scale of 1 to 10, with the lower numbers indicating less satisfaction, the test group reported a satisfaction level of 7.32, while the control group scored 6.67. This difference was similarly replicated when crosstabulations for gender, age, education, income, and household structure were made (Kela, 2019).

Using the same scale, the pilot also measured trust in other persons, the legal system and politicians. Basic income recipients reported scores of 6.68, 6.62 and 4.28 respectively. The test group scored higher than the control group on level of trust in both the legal system and politicians (Kela, 2019).

More than 58% reported strong or very strong confidence in their own futures. Over 42% of the test group indicated strong or quite strong confidence in their financial circumstances, while almost 29% had strong or quite strong confidence in their ability to influence social matters. In terms of both confidence in one's own future and financial circumstances, the test group reported results that were significantly higher than the control group (Kela, 2019).

The Finnish experiment also measured participants' experience of stress while receiving basic income. When asked, 54.8% of the test group reported not feeling stress at all, or only to a small extent. This demonstrated an improvement over the control group for whom 45.6% indicated feeling no stress at all or only to a small extent (Kela, 2019).

Two-thirds of recipients indicated that their ability to concentrate was good or very good, as compared to 55.7% of the control group. When asked whether they had experienced a loss of interest in things that were previously considered enjoyable, 72.6% of the test group answered no, compared to 64.6% of the control group (Kela, 2019).

When it came to levels of comfort among test group participants, 48.1% indicated they were 'doing okay' while approximately 10% reported living comfortably. About 12.5% were barely getting by on their income, while 26.1% had difficulties making ends meet. The preliminary results suggest that the predictability provided by basic income can "reduce the level of stress due to less bureaucracy and more certain flow of income" (Kela, 2019).

In terms of employment, participants in the test group did not indicate a statistically significant difference in their rates of employment relative to the control group. Indeed, participants reported only a half day more work in total over the course of the pilot (Kela, 2019).

The Finnish pilot also examined whether recipients used the additional security provided by basic income to engage in forms of self-employment. However, it found only a marginal difference between the control group and the test group. There were more significant differences between the control and test groups in terms of the amount of social assistance benefits (such as a housing allowance or child benefit) received by participants, but these were anticipated, since the basic income was designed to replace or supplement such existing programs (Kela, 2019).

The pilot found that 31% of those who received a basic income were employed at the time the survey was conducted, whereas only about 25% of the control group reported being employed. About 70% of those from the test group who were employed, were working in full-time positions. Approximately 69% of those who received basic income, and worked part-time, said they would rather find full-time employment. This was an improvement over the control group, of which 58% of part-time respondents indicated they would prefer full-time work. Among unemployed basic income recipients, 56% reported they would find employment within the next year, as compared to 45% of the control group (Kela, 2019).

When asked whether they thought basic income would make more sense financially to accept a job offer, 89% strongly or somewhat agreed. Similarly, 51.9% strongly or somewhat agreed with the notion that it would be easier to start your own business with basic income, while 69.3% strongly or somewhat agreed that basic income should be implemented as a permanent part of Finland's social security system (Kela, 2019).

Overall, participants in the Finnish pilot reported benefits in different areas of their lives. However, the results also showed that members of the test group were no better or worse at finding employment than control group members, a disappointing finding given the high expectations that basic income would meaningfully impact labour market incentives and opportunities for those unemployed.

Canada, Ontario

In the post-crisis period, a movement to reduce poverty had steadily grown in Canada's most populated province Ontario. The provincial government responded with a series of measures, including a Poverty Reduction Act, minimum wage increase and basic income pilot.

Estimated to cost $150 million CAD over a period of three years, the Ontario Basic Income Pilot marked a significant departure from the province's past policies and assumptions around welfare provision. Approximately 4,000 recipients were selected from three different regions (Hamilton-Brantford, Thunder Bay and Lindsay) to receive a basic income and become key informants in the evaluation of the program. To qualify, individuals had to be between the ages of 18 and 64 and low income, either earning less than $34,000 CAD as an individual or $48,000 as a couple. Annual basic incomes were valued up to $16,989 for singles and $24,027 for couples. There would be a claw back of 50 cents for every dollar participants earned through paid employment, thus incentivizing them to enter or continue work while

receiving basic income. Those with disabilities were entitled to receive up to $500 in additional support each month (Government of Ontario, 2017).

Those receiving provincial social assistance from Ontario Works and the Ontario Disability Support Program, which were significantly less generous than the basic income (96.25% and 66.44% less generous, respectively) had to temporarily withdraw from those programs in order to participate in the pilot. Halfway through the pilot, however, a new government assumed power and began winding down payments to recipients and terminating evaluation activities before any meaningful data could be collected by the government commissioned research team.

To compensate, a different group of researchers stepped in to assess the impact of the pilot on recipients in the Hamilton-Brantford site where 1,000 individuals received basic income. After surveying 217 recipients and interviewing over 40 of them, they found the pilot had a significant impact on the living and/or working conditions of most recipients, despite the short period of time they were enrolled in the program (Ferdosi et al., 2020).

In terms of physical health, they found a significant number of their basic income participants had reported: better overall well-being (79%), more physical activity (74%), less frequent tiredness (71%) and pain (57%), less consumption of tobacco (56%) and alcohol (48%) and greater child well-being (69%) (Ferdosi et al., 2020).

In terms of mental health, their survey respondents indicated improved mental well-being (83%), less frequent stress/anxiety (86%), depression (83%) and anger (78%), increased self-confidence (81%) and a more positive perspective on life (86%) (Ferdosi et al., 2020).

The Ontario basic income also had a noticeable impact on the use of public and private health services, with many of the survey respondents indicating less frequent visits to health practitioners (33%) and hospital emergency rooms (37%), easier access to dental care (74%), drug store medicines (83%) and professional counselling services (50%) (Ferdosi et al., 2020).

The researchers also noted improvements in food security, as survey participants reported a better overall diet (86%), frequent consumption of nutritious foods such as fruits and vegetables (85%), less tendency to skip meals (69%) and less foodbank usage (68%) (Ferdosi et al., 2020).

In terms of housing security, many recipients reported greater affordability of basic household items (85%) and essential clothing (86%) and better overall living accommodations (46%) (Ferdosi et al., 2020).

As for financial wellness, the results showed many recipients experienced an easier time repaying their debts (60%) and traveling around the city or region (78%), less or no frequent use of payday loans (91%), improved financial emergency preparedness (75%) and less dependence on family or friends for financial help (84%) (Ferdosi et al., 2020).

In the social realm, it appears the Ontario pilot had significant impacts, allowing recipients to spend more time with their loved ones (69%), cultivate better relations with their family members (66%), participate in extracurricular activities with others or alone more frequently (76%), devote more time to personal hobbies (73%), socialize more with those around (74%) and volunteer more (48%) (Ferdosi et al., 2020).

As for the labour market participation of recipients, over half of their survey respondents indicated working before and during the pilot (54%) while less than a quarter reported being unemployed before and during the pilot (24%). Slightly less than one-fifth said they were employed before but unemployed during the pilot (17%) and a smaller number reported not working before but finding work during the pilot (5%) (Ferdosi et al., 2020).

As for those who were working both before and during the pilot, some reported improvements in their rate of pay (37%), working conditions (31%) and job security (27%). The entire survey sample of able bodied individuals reported other work-related improvements such as being able to search more easily for a job (61%), staying motivated to find better employment (79%) and starting school or an educational training program (26%) (Ferdosi et al., 2020).

The findings of the Ontario basic income pilot, however partial and incomplete they may be, distinguish the Canadian experiment from the Spanish and Finnish ones in significant ways. The degree of improvements reported across a variety of indicators, mostly notably labour market participation, but also health, food security and financial well-being, make the Ontario pilot stand out more as compared to its peers. Part of the explanation may lie in the relatively generous basic income support provided to recipients in Canada. The extra benefits, however, did not seem to curb labour market incentives, thereby dispelling some of the fears that a more generous welfare program would lead to a wholesale abandonment of paid employment.

CONCLUSION

Experiments with basic income in different worlds of welfare suggest that different political and economic systems are prone to experience the same kind of negative outcomes, which if left unchecked may well become far reaching in their harm, undermining livelihoods, social solidarity and political legitimacy. This creates a need for countries with different policies, institutions and comparative advantages to seek alternative ways of addressing their socio-economic problems through innovative solutions, since they have collectively exhausted the existing policy means available to them. This is the most probable reason why every single regime-type identified in the literature has experimented with a similar policy tool broadly termed ‘basic income’. Various pilot projects on or relating to basic income in different regimes represent a departure from traditional approaches to solving public problems. This can be seen in the different pilot designs of countries, which not only deviate from their past policy paradigms but also vary from each other, as no two pilots have been designed the same. This has allowed for the comparison of a more extensive set of designs in different country contexts, offering unique insights into the interactions between ‘basic income’ and the environments in which it has been deployed. In this way, a coordinated wave of pilots across welfare systems could offer opportunity for different experiments to inform one another. However, evidence derived from each pilot must take into consideration the country’s context, including its specific policy legacies, institutional arrangements and labour market features.

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KEY TERMS AND DEFINITIONS

Basic Income: A variety of negative income tax proposals which are more generous or less conditional than pre-existing government programs.

Convergence: A process whereby outcome or policy differences between countries become less discernible.

Globalization: Homogenous pressures pushing different countries toward similar patterns of behavior and logics.

Outcomes: The results, impacts or consequences of policies, institutions and other arrangements.

Pilot: Experimentation with an alternative policy tool with a research component to assess its effectiveness vis-à-vis a preexisting policy.

Welfare: A state or condition of life determined by how well human needs and social opportunities are met.

Worlds of Welfare: An attempt to classify all welfare states into four regime-types.

Chapter 8
Globalization/Liberalization and Poverty Level in Africa: The Role of African Leaders

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ABSTRACT

Despite the flow of foreign direct investment into Africa, there was low human development. Leadership was established as the missing link between high level of globalization in Africa and low economic development. The chapter established the role played by leadership in the relationship between globalization and poverty level in Africa. The chapter postulates that it was time the question of African leadership was directed to the hidden causes of poor leadership behavior instead of the ineffective means of seeking a surface change of leadership style without changing the underlying causes. African leadership mindset was positioned into four quadrants, which accounted for the dark and the bright side of leadership in Africa. Also, it was argued that by changing the African leadership mindset to growth/external mindset, leadership behaviors could be transformed to drive change in structure and management to obtain the gains of globalization.

INTRODUCTION

We must ensure that the global market is embedded in broadly shared values and practices that reflect global social needs, and that all the world's people share the benefits of globalization. -Kofi Annan

This chapter is interested in identifying the role played by globalization/liberalization and African leaders in the poverty level in Africa. Questions directed at finding out if globalization leads to expected development in developing nations will elicit different answers depending on which angle globalization is viewed from. Those who have benefited from globalization will proclaim it to be successful, while those who have not will claim it as a tool for marginalizing the less privileged. For instance, popular

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writers in the continent once proclaimed that globalization was a tool used by the West to initiate another era of colonization in Africa (Prah, 2000; Ngwame, 2001). However, this book chapter aligns with the opening quotation from the late former Secretary-General of the United Nations, Kofi Annan, to the fact that national leaders play a significant role in realizing the dividends of globalization. The word "We" in his comment was addressed to world leaders who were gathered to review the state of the world following years of globalization. The book chapter assumes globalization and liberalization can indeed improve the poverty level in Africa, but that this can only be realized when African Leaders adopt the appropriate leadership style which is driven by an appropriate leadership mindset and a proper understanding of leadership. The fact that some developing countries moved from their backward position into a position of economic boom by the emergence of good leaders is an indication that globalization and liberalization do improve national development when a favorable climate is created (Mukherji, 2009; Tse, 2013; Yew, 2000).

Africa has not been fortunate enough to have a continuous reign of visionary and selfless leaders who can drive the steady development of the continent. Therefore, many writers have mentioned that the problem of Africa originates from its leadership crisis (Mills, 2011; Afegbua & Adejuwon, 2012). The African leadership journey has been characterized either as the dark side or bright side era, depending on the leadership styles of those in authority (Amah, 2019; Jallow, 2014). Unfortunately, the gain achieved in the bright side era has always been eclipsed by leadership activities in the dark side era, thus, leaving the continent with a negative development (Jallow, 2014). The current book chapter argues for a change in leadership driven by a good understanding of leadership and the formation of an effective leadership mindset. In doing this, the book chapter will cover the following areas: the different views of globalization, how globalization can achieve national development, the story of Africa and the role of her leaders, leadership that can drive the success of globalization in Africa, and conclusion.

THE DIFFERENT VIEWS OF GLOBALIZATION

The origin of globalization can be traced to the era when the early humans recognized the need to harness their competitive advantage. Hence, the formation of the concept of "village" described as a conglomeration of families (Amah, 2019). Globalization grew from this humble beginning to its current level due to the roles played by technology and efficient means of transportation. The origin of globalization, however, is as controversial as its definition. Despite the over-emphasis on its economic component, globalization is a multidimensional construct that emphasizes economic, social, cultural, political, and legal dimensions. However, globalization has made progress in its mission only on the economic component. Liberalization, on the other hand, involves removing barriers to economic activities across nations. Thus, globalization created the world as a village, liberalization made the integration of economic activities across this "big village" possible. There are two views in Africa on the effectiveness of these two concepts. The first view is upheld by the anti-globalist who sees globalization and liberalization as tools for the continuous impoverishment of Africa (Prah, 2000; Ngwane, 2001). This view holds outsiders responsible for the woes of globalization and liberalization and does not acknowledge the role of African national leaders in the realization of the benefits of globalization. The other view held by globalist ideology is that globalization enhances development, which in turn leads to the improvement of individual wellbeing in all situations (Diamond, 1998). Proponents of this view claim that poor data analysis is responsible for the lack of identification of the achievements of globalization in some coun-

tries. This view, however, does not recognize that the relationship between globalization and national development is moderated by the actions of national leaders who must galvanize their people and build structures to benefit from globalization. A primary assumption of globalization and liberalization is that each nation involved must have a competitive advantage in some productive process which forms the basis of the exchange process. Hence, national leaders are not expected to stand aloof and do nothing while expecting the dividends of globalization.

Past authors have lamented the poor nature of governance in Africa and its consequences to the development of Africa (Jallow, 2014; Poncian & Mgaya, 2015). Elsewhere, Amah (2019) argued that the leadership behaviors of African leaders could not convert the vast amount of Foreign Direct Investment (FDI) into the economic development of the region reflected in the growth of the Human Development Index (HDI). The book chapter will utilize secondary data to show that the poverty level in Africa did not commensurately improve with the level of FDI in Africa. Data was obtained from local economic and world bodies on the economic development of Africa and FDI into Africa. The chapter will attempt to establish that part of the failure lies in the activities of African leaders who did not create enabling laws as well as the needed infrastructure to direct FDI to productive sectors of the economy. The book chapter will end by discussing how leadership driven by an accurate understanding of leadership and the development of appropriate leadership mindset, can utilize the FDI into Africa to develop the people and the economy.

HOW GLOBALIZATION/LIBERALIZATION LEAD TO DEVELOPMENT

The adopted definition of globalization has a lot to do with how its benefit is measured and what is allowed. For example, Ritzer (2011, p.2) defined globalization as the "trans-planetary process or set of processes involving increasing liquidity and the growing multi-directional flows of people, objects, places, and information as well as the structures they encounter and create that are barriers to or, expedite those flows." This definition recognizes the multidimensional nature of globalization consisting of people and economic components, but excluding components such as legal, political, and military components. It also makes room for barriers in the flow of these factors. This fact runs counter to the basis of globalization as a process of creating a global village where there is no barrier to the flow of people and other factors. The International Monetary Fund (IMF) stated that globalization involves trade and transactions, capital and investment movements, migration and movements of people and the spread of knowledge. However, these components of globalization have not been realized due to barriers in the nations of the world. The only component that has received adequate attention is the economic component. Hence, the working definition of globalization adopted in this book chapter is from Amah (2019, p. 12) which is "the free flow of goods and services, human resources, and capital across national borders that is facilitated by free flow of technology in such a way as to effect economic development of nations and wellbeing of societies." This, too, is a narrow definition, but it is adequate since the book chapter will gauge the success of globalization using the economic parameters only.

The current form of globalization has been described as passing through eras representing the gradual integration of nations (Friedman, 2005). This has made globalization grow from the initial integration of families and hamlets to its expanded form driven by technology, enhanced transportation, and communication. This growth is, however, in the economic component only with little or no progress made in integrating nations in other components of globalization. For instance, immigration laws existing

across countries is an indication that the integration of people has not been achieved. The world has also been seen to pass through phases before and during the process of interconnecting nations. The first is the solidity phase, in which people, information and others had limited mobility. In this phase, which technically occurred before globalization, barriers existed, and nations tended to manage their resources exclusively (Ritzer, 2011). The second phase is the period of "increasing liquidity" (Lakoff, 2008, p. 277-300), which is characterized by the increased ease of moving people, things, and information across the globe. It was during this period that foreign aids, investment and financial transactions flourished (Pollio & Guillen, 2005, p. 764-802). The third phase referred to as "flow" (Appadurai, 1996; Ritzer, 2011) started because of the further easing of global barriers. Movement of people, things and information became even more pronounced. Apart from technology, improved means of transportation, and communication, other factors that facilitated the rapid growth of globalization/liberalization include the formation of world organizations which ensured increased integration of world economy. The last two changes in the world occurred after globalization was introduced as a concept.

The basis for the success of globalization is the competitive advantage possessed by nations which stipulates that nations develop a competitive advantage in some factors of production, which forms basis of their competition in world trade. According to Porter (1990, p. 73), competitive advantage is "created and sustained through a highly localized process." There are variations in the level of competitive advantage developed by a nation, and this difference is accounted for by the values, culture, economic structure, institutions, and history of that nation. Globalization is envisaged to promote competition and division of labor which will allow countries to focus on what they can do best while using this factor as a basis for exchange in world trade. When this happens, each participating nation can benefit from the interconnection of nations. However, when a nation does not develop its competitive advantage in any factor, it has nothing to gain and so is turned into a dumping ground for other nations. Countries whose leaders have consciously developed their competitive advantage have astronomical economic growth and improved wellbeing of the citizens as an outcome. For instance, the leadership of India, China and Singapore made drastic changes to their system and positioned their countries to derive the benefits of globalization in a short time. Under efficient leaders in India, the country became a technological hub for many companies because of their structural development and the competitive advantage of having an abundant supply of qualified IT personnel (Mukherji, 2009). China grew to become the number two economy in the world due to their leadership qualities (Tse, 2013), while Singapore grew its GDP per capita from USD 400 to USD 22,000 from 1959 to 1999 because of the changes embarked upon by their leaders (Yew, 2000). The pattern of actions taken by these leaders is similar even though they are adapted to local conditions which are: hardworking people, good basic infrastructure, and honest and competent leaders able and willing to mobilize people and set up efficient infrastructures to aid national development. These leaders prepared their countries to compete in the integrated world market.

Africa, on the other hand, has a sad tale of the role of globalization. Foreign Direct Investment (FDI) into Africa grew from USD 41billion to USD 46 billion from 2017 to 2018 without commensurate growth in the Human Development Index (HDI) (UNTAD, 2019). According to Bodomo (2017), most of the investments went into sectors with low tax revenue but with high environmental cost to the continent. Investors were willing to invest in sectors that provided the least cost of investment with a high percentage of success. It is the responsibility of national leaders; however, to prepare their nations to receive FDI into areas of competitive advantage. Unfortunately, because of poor leadership and poor infrastructural development, the only area where Africa has an advantage is the oil sector. The oil export, moreover, is not in its finished form that yields high revenue. As Porter (1990) stated, national prosperity is created

and does not depend on natural endowment. African leaders have always depended on natural endowment to generate competitive advantage and national prosperity. However, nothing is done to move these natural endowments into finished states that yield high revenue. It is the inability of her leaders to prepare the continent that has led to the lopsided investment in Africa. An example of a country that has managed its resources to derive a competitive advantage is the United Arab Emirates (UAE). The UAE is an oil-producing country, but its leaders have moved it from oil-dependent to tourism-dependent by the infrastructures they put in place, thus attracting investors into the tourism sector.

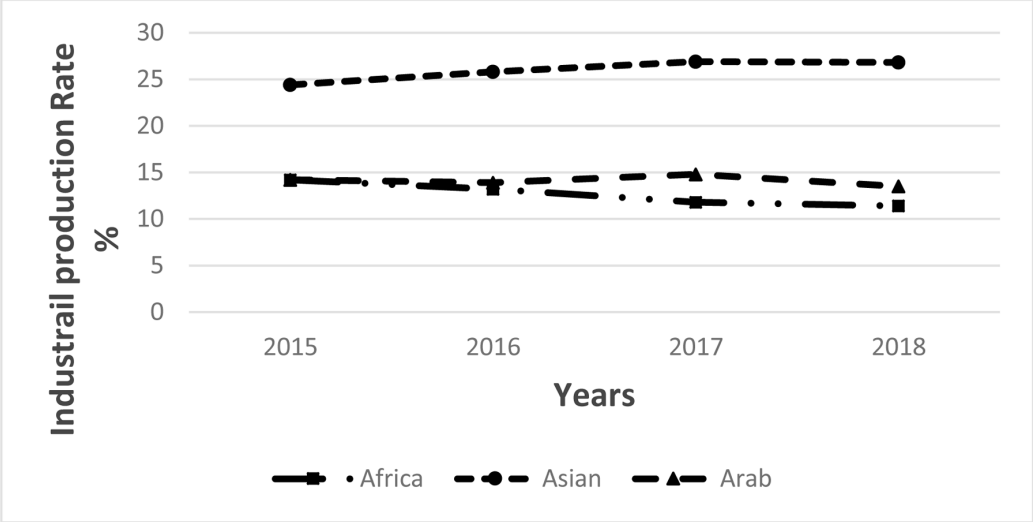
The author believes that contrary to the anti-globalist ideology that globalization is a way of initiating the second colonization of Africa, globalization has the potential of developing Africa if leadership behavior can be effective in preparing the continent for development. African countries need leaders with the appropriate mindset and understanding of leadership who will develop adequate infrastructures to support the process of development and mobilize people to be hardworking and honest. Good leadership will improve the nation's competitive advantage in a factor of production, which can form the basis of exchange in an integrated world. The African continent has the potential to benefit from globalization as natural resources and GDP growth continually position the continent to attract FDI. However, the continent must be prepared to receive and harmonize this investment to her advantage.

GLOBALIZATION AND POVERTY LEVEL: THE AFRICAN STORY

Globalization has been conceptualized as a multidimensional construct that can lift participating nations out of poverty. Its components include the economic, social, cultural, political, and legal dimensions. Considering policies from world bodies and participating nations, it is evident that only the economic integration of the world has been pursued with other components downplayed. This means that in gauging the success of globalization, only the economic component can be considered. Past analysis has shown globalization to be a failure in the other components (Amah, 2019). The variables Foreign Direct Investment (FDI), globalization Index, Human Development Index (HDI), Gross Domestic Product, per capita growth rate and the economic development mirrored by the level of industrialization will be used to gauge the effect of the economic component of globalization. Between 2014 and 2016, world FDI flow grew from $1.5 trillion to $2.9 trillion (93%) with a reduction to $1.5 trillion in 2018 (UNCTAD World Investment Report 2019). Unfortunately, the FDI flow into developing economies from 2014 to 2018 grew from $0.6 trillion to $0.8 trillion (33%). The magnitude of the problem is masked when only the percentage is considered. A review of the data showed that the share of all the developing economies in the world FDI is only 27%. FDI flow into Africa increased from $41 billion in 2017 to $46 billion in 2018 (12% increase), and its share of world FDI is only 3.1% compared to 30.7% by Asian countries (UNCTAD World Investment Report 2019). While Africa experienced positive GDP growth within this period, the rest of the world had negative growth. Consequently, considering the population of Africa and its GDP growth, the continent has not received much from globalization when measured from the FDI flow. The same conclusion can be made when globalization index and industrial production growth rate are considered. According to Amah (2019), 9.6% of African countries are above the 60% mark in the globalization index, while the rest are below. Some countries in Africa are in the negative range of the industrial production growth rate despite the level of FDI into the country. For example, in 2019, only Kenya had a growth rate of 5.1%, while the rest of the continent was in the negative. What is evident from available data is that FDI flow went into countries with low GDP, while Africa with a high GDP

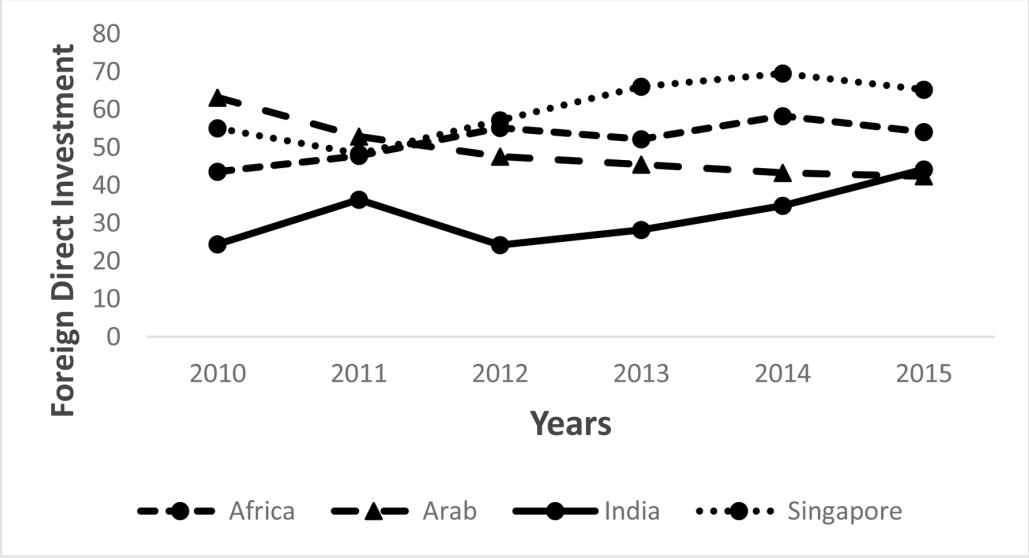
growth rate attracted less FDI. Hence gauging by the level of FDI, globalization index and industrial production growth rate, Africa did not benefit much from globalization (see figures 1). This is one side of the story. Figure 2 shows that the variation in FDI to Singapore, Arab, India, and Africa region were remarkably close. India had lower FDI compared to other regions. India received only 2.5% of FDI flow and yet was able to convert the same into economic development as indicated by both the globalization index and GDP per capita. The same can be said of other regions, but not of Africa. As indicated in figure 3, the GDP per capita for Africa did not grow as expected. The Human Development Index (HDI-figure 4) indicated that 35% of African countries are in the high and medium ranges of HDI, while 65% are in the low range (UNDP African human development report 2016). These data indicate that increasing FDI received by Africa between 2012 and 2015 had no significant effect on the wellbeing of people and economic development of the continent.

Figure 1. 2015-2018 industrial production rate for selected regions



This points to the fact that internal factors may be responsible for Africa's inability to convert the FDI flow into economic growth. What could these internal factors be? There are conflicting answers to this question from both the anti-globalists and the globalists. The former blames the implementation of globalization, while the latter faults Africa for her inability to take advantage of the potentials of globalization as others did. The correct answer may, however, come from finding out what drives FDI inflow to countries. The author thinks that two factors are responsible for the poor performance of globalization in Africa. The first is that FDI into Africa is mainly in the areas with low tax and high negative environment and social consequences (Bodomo, 2017). FDI is made with the view to enhancing long-term development in the receiving country. Hence, FDI should not be positioned in buying and selling industries but in projects which can drive the future economic growth of the receiving country. The second factor is that the receiving country must prepare its economy for the investing nation or individuals who desire to invest in projects with future development potential. Jaiblai and Shenai (2019) studied the determinants of FDI flow into Africa and established that the availability of infrastructure, size of market, openness

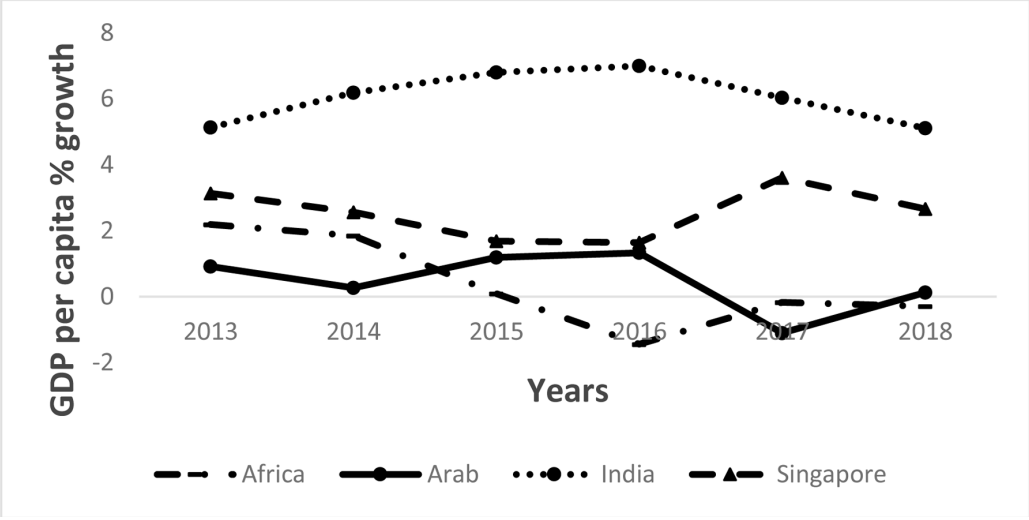
Figure 2. 2010-2015 FDI for selected regions



and exchange rate depreciation were major variables that determined where investors put their money. The poor level of infrastructure in Africa may have forced investors to concentrate on areas where they can operate and be efficient. This may be responsible for the lopsided investment of FDI into areas of low tax with high returns to investors.

African leaders are responsible for the decisions on the level of infrastructure. They are responsible for the budgets which allocate resources for both capital and recurrent projects. Within 2012 to 2018, FDI inflow to Africa grew by 12%. However, from figure 5, there was a decline in HDI across the continent. This means that African leaders could not convert the growth in FDI to economic growth and wellbeing of their population.

Figure 3. 2013-2018 GDP per capita growth rate for selected regions



Studies have established a strong negative relationship between government unproductive expenditures and conflicts with HDI (Sharma & Gani, 2004). The study found a strong positive relationship between HDI and FDI. For this link to be achieved, it is recommended that governments must have strong negotiation power while dealing with investors. This would mean that national governments must have established the main drivers of FDI investment to direct investors into productive sectors of the economy. If investors target areas of high growth in GDP, Africa would be a preferred destination for all FDI. However, GDP growth potential is only one of the factors considered by investors (Jaiblai & Shenai, 2019). Most of the factors which drive FDI decisions hinge on the quality of leadership as demonstrated in the ability of leaders to drive infrastructural development and alleviate the poverty level of their population. Ability to do these will depend on leadership behavior. Without the appropriate leadership behavior, a nation cannot achieve the positive link between globalization and economic development. Countries that have achieved this link did so through highly effective leaders who were willing to make important decisions to align their countries' development to what is required to achieve high HDI and economic development. For example, India faced a similar situation of misalignment, but her leaders restructured the economy and developed infrastructures which have made the nation a technology hub for most IT firms in the world. In the case of Africa, though the continent has growth potential and natural resources, the leadership behaviors could not link these to economic development (Johnson, 2010; Maathai, 2009). The next section will review leadership structure in Africa and the changes required to position the continent to take advantage of the potential in globalization and achieve high HDI and economic growth.

Figure 4. 1990-2016 Yearly Distribution of HDI and FDI for the Africa Region
Author prepared graph using data from IMF World Economic Outlook 2017

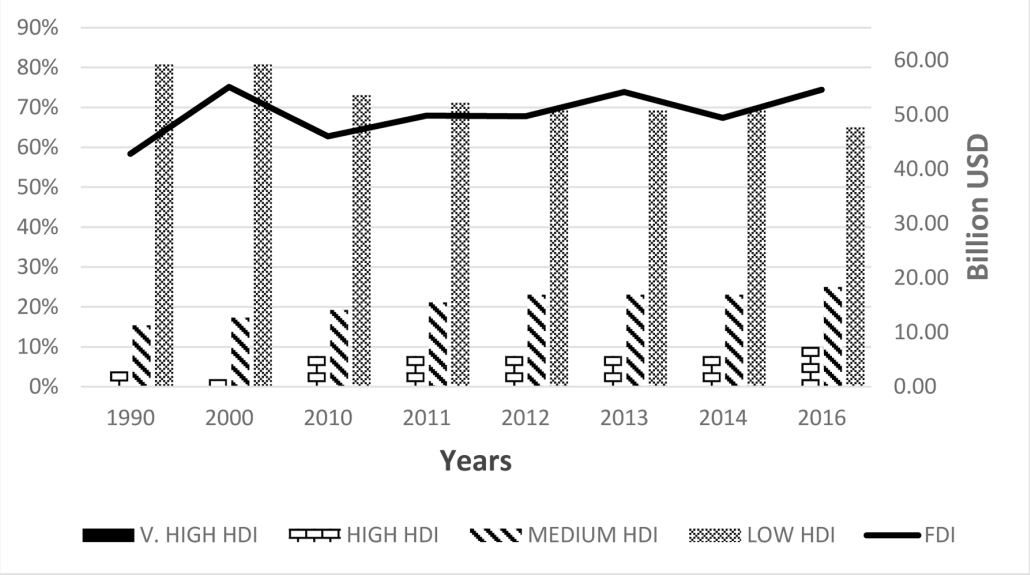
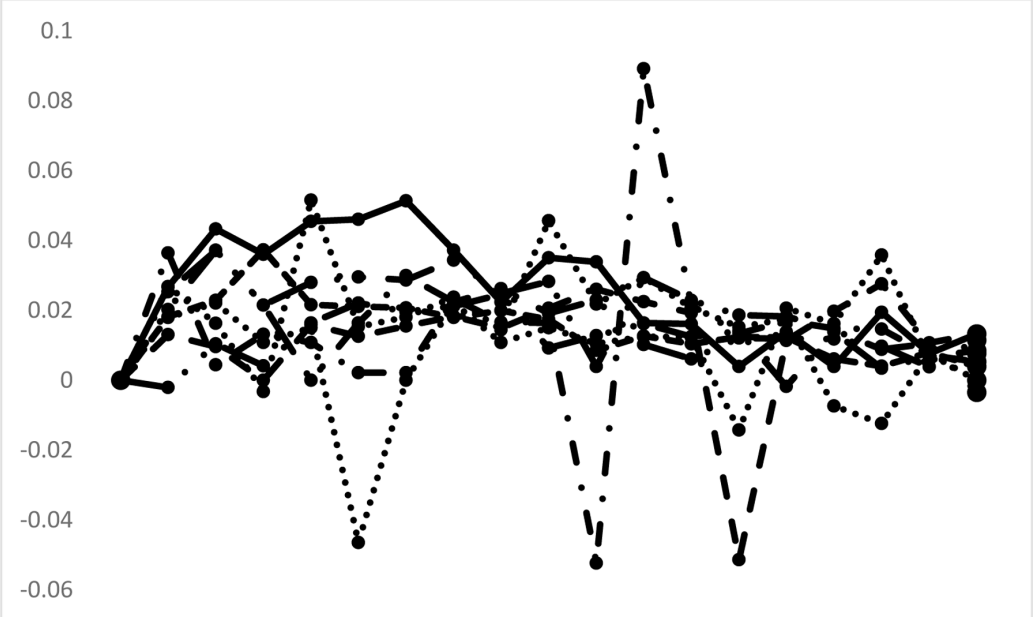


Figure 5. 2000 -2018 yearly variation in HDI for African countries with and without long-serving Presidents



LEADERSHIP THAT DRIVES THE SUCCESS OF GLOBALIZATION

The story of India, Singapore, and China has demonstrated that indeed globalization can lead to economic growth in nations. However, their leaders played a significant role in this conversion. Africa has satisfied one of the criteria for attracting FDI, favorable GDP growth, but has failed to develop support structures that will ensure that the FDI is invested in areas that will drive growth and HDI enhancement. Many authors of African origin have discussed the failure of leadership in Africa (Azikiwe, 1970; Kumuyi, 2007; Swart, 2008). The establishment of leadership academy and the award of excellence in leadership lays credence to the need to improve leadership performance in Africa. The call for leadership development cuts across various eras in the development of the continent. For example, Achebe (1983) asserted that African economic development is predicated on leaders who have the right will, ability and vision. African, however, has not been fortunate to have a continuous supply of such leaders, hence the haphazard nature of its development. African leadership is characterized by long-serving leaders who rule over nations with dwindling HDI and yet have the insatiable quest to rule the continent. For example, figure 5 showed that the growth rate of HDI between 2012 and 2018 was negative for all African countries. This is so even when there was increased growth in FDI inflow into the continent.

Leadership theories have passed various phases in an attempt to define an effective leader. In the 21st century, the idea of value-based leadership (VBL) was introduced as a result of the many corporate scandals arising from the activities of leaders (Dean, 2008; Hoch, Bommer, Dulebohn, & Wu, 2018; Shatalebi & Yarmohammadian, 2011). VBL leaders live and remain true to their values, which conforms with the values of their organization. They ensure that followers also live by the same values. As a result, various forms of VBL have been considered in leadership. These include authentic leadership (Ceri-Booms, 2012), transformational leadership (Sahgal & Pathak, 2007), transactional and autocratic

leaderships (Kabeyi, 2018), and servant leadership (Amah, 2019; Covey, 2002; Greenleaf, 1977). Each of these VBL styles has various behaviors ascribed to it (see Avolio, Waldman & Yammarino 1991). For example, servant leaders have a primary aim of leadership as service. Efforts have been made in the past to establish the uniqueness and superiority of one leadership style over the others (see Amah, 2018; Jallow, 2014; Johnson, 2010). Leadership development has placed great emphasis on teaching leaders to adopt the behaviors found to be superior and to avoid unproductive behaviors. This form of teaching does not consider a major issue in shaping behavior. While behavior is the outward sign of observed leadership effectiveness, it is driven by hidden concepts of leadership. Unless these hidden concepts are recognized and corrected, teaching people to learn the outward behaviors will always remain ineffective in obtaining the required changes. The chapter will describe the role of understanding of leadership and leadership mindsets in shaping leadership behavior.

RELATIONSHIPS AMONG LEADERSHIP BEHAVIOR, UNDERSTANDING OF LEADERSHIP AND LEADERSHIP MINDSET

The guiding principle behind the above relationships is the formula:

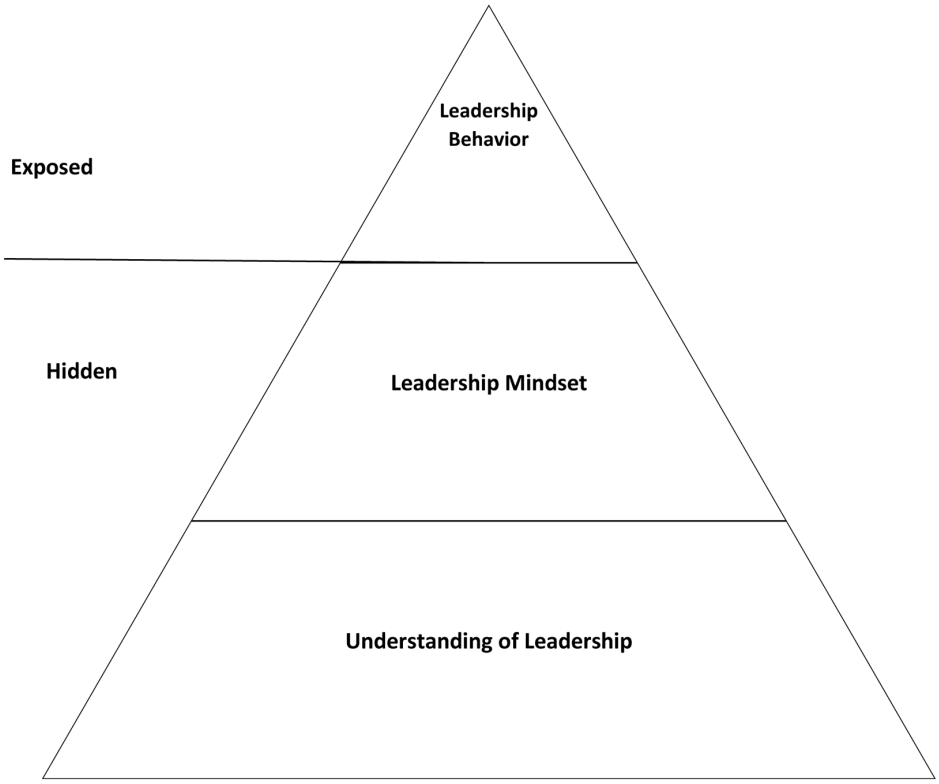
Leadership Behavior = f (Understanding of Leadership, Leadership Mindset)

Figure 6 shows that while leadership behavior is exposed in the iceberg, leadership mindset and understanding are hidden and cannot be seen. Thus, working on changing behavior only without changing the hidden portions (mindset and understanding) will yield no positive value. The individual will only learn the new behavior, wish to adopt it but will be limited by his/her understanding of leadership and leadership mindset. Effective change comes by knowing the individual's understanding of leadership and leadership mindset, and ensuring they are aligned with the expected leadership behavior. Only then can behavior change.

Understanding of Leadership

There are two ways that individuals can understand what leadership is. Leadership can be understood for the purpose of acquiring status. Those who have this understanding are in leadership for what they can get. Their actions are internally focused, and followers are in to obey and work for their benefit. Followers are slaves who exist only to do what the leader wants and must tremble at his presence. Decisions made align with this concept of achieving what is essential to the leader. In terms of wealth and development, the leader grows rich and develops, while the nation does not. Therefore, you can have an increase in FDI into Africa followed by a corresponding decrease in the development of people indicated by HDI when this kind of leader is in position (see Figure 5). Jallow (2014) calls this period the dark side of leadership in Africa, and Amah (2019) stated that these leaders are dysfunctional and collectively account for the underdevelopment and rising poverty levels in Africa. Azikiwe (1970) recognized the poor understanding of leadership in African leaders when he stated that the continent would develop if leaders could embrace a different understanding of leadership based on service instead of selfishness. Such leaders lack will, ability and vision except when their selfish interest is to be pursued (Achebe, 1983). For example, Banda (2014) insinuated that when Banda ruled Malawi, his political alignments were to advance his personal goals and not the development of Malawi. Hence in the 30 years of his reign, the economy of Malawi was plundered. What happened in Malawi is not an isolated case but can be seen

Figure 6. Iceberg reflection of the relationship among leadership behavior, mindset and understanding of leadership



in Africa even in the postcolonial era. In Nigeria, for instance, during the military regime, the nation earned a lot of foreign reserve but not much development was made. In the attempt to maintain status, the leaders did everything, including amending the constitution and electoral laws to remain in office. They are responsible for the wars in the continent because wars serve to perpetuate them in office, and eventually, they externalize blame for the high poverty level in Africa (Alemazung, 2010). However, the poverty level in Africa can be attributed to the selfish decisions made by these postcolonial African leaders (Mills, 2011; Nkapa, 2010) resulting from their poor understanding of leadership.

Leadership can also be understood as a process or means to serve. This understanding is externally focused, and its purpose is to serve followers so that they can develop to the level they aspire. The leader exists to ensure that the follower becomes the best version of himself; the leader recognizes and accepts that he and his followers are in a collaborative environment which becomes efficient with trust and empathy. Such a leader has an overarching purpose of developing the nation and of leaving behind a legacy that will outlive him. Leaders with this understanding who have ruled in Africa did so during the bright side of leadership in Africa. Unfortunately, such leaders reigned in short periods, but their legacy can still be seen even after dysfunctional leaders attempted to blot them from history. The examples of Nelson Mandela of South Africa and Joaquim Chissano of Mozambique are readily available. Mandela spent a substantial part of his life in prison. When he became the president of South Africa,

he used his position to change the hatred in South Africa and ensured everyone had the opportunity to make meaningful contributions to the development of the country. When he felt he had done his part, he left office for others to continue the drive. Unfortunately, his plan was truncated, and South Africa fell into hard times. Joaquim Chissano of Mozambique ruled the country for two terms and during his tenure, the economy grew by 8%, and 15% of the people moved out of the poverty group, and there was a reduction in infant mortality rate (Wikipedia). Despite his achievements and the pressure to change the constitution, he refused to return for an illegal third term.

Leaders with this understanding of leadership must be the norm in Africa, and not just punctuate the long history of selfish leaders whose desires are to pursue self-interest at the detriment of the development of their country. It is this type of leadership that will analyze the pattern of FDI to determine how to direct such investments. Because they aim to develop their countries, these leaders would put in place infrastructures that would enable investors to invest in areas that will aid the development of their nations. Such leaders realize that they need their followers to drive sustainable development and would thus do everything within their power to develop their nation's human capacity. An understanding of leadership drives the development of leadership mindset which is discussed next.

Leadership Mindset

An understanding of leadership drives leadership mindset, which in turn drives leadership behavior (see figure 6). Leadership mindset represents what a leader intends to do as a leader. The first categorization of leadership mindset was developed by The Arbinger Institute (2016). Following this categorization, leadership mindset can be internal or external. Leaders who understand leadership as a means of acquiring status will subscribe to the internal mindset. Internal mindset views power and status as a right that is demanded and not earned. This mindset seeks to lord it over followers and cares nothing about their feelings. The leader who understands leadership as a means to serve, however, subscribes to the external mindset. His interest is not on himself but on his followers. In the external mindset, leadership is earned through how the leader relates and serves the followers to be the best aspect of themselves. Such a leader believes that followers are at their best when he enables them to be part of the big picture he is pursuing. The table below captures the essence and attitude of both the internal and external mindset leaders.

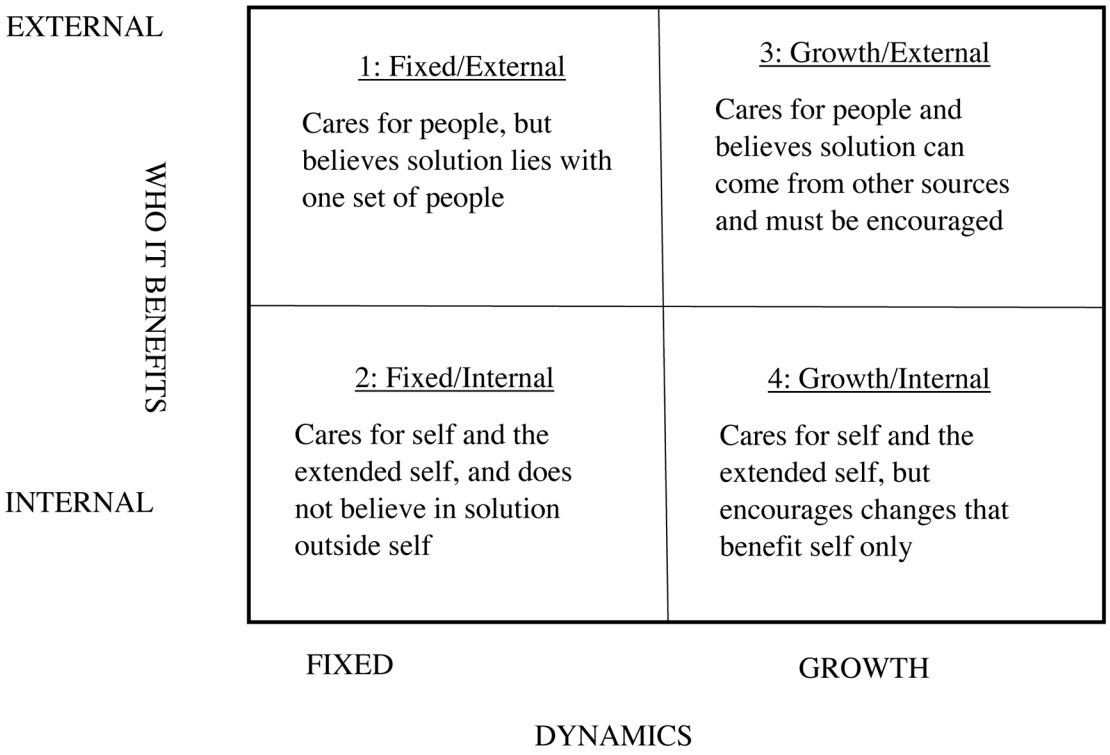
Table 1. Consequences of the internal and external mindset

Internal Mindset	External mindset
Narrow-minded possibilities	Considers wide and better possibilities
Operates only within the narrow self interest	Sees beyond self and operates outside the narrow self interest
Has low opinion of others	View others positively
Has low emotional intelligence	Has high emotional intelligence
Sees others as objects to be used and dumped when not required	See others as human beings to be developed and appreciated

Source: Author

Dweck (2006) categorized leadership mindset based on how dynamic it is. In this category, leadership mindset can either be fixed or growth. Fixed mindset arises from understanding leadership as a status. In the fixed mindset, the leader resists change especially when such change does not come from him or threatens his power base. Changes are allowed if they come from him to fully reinforce his belief that he has custody of the means of development. In the growth mindset, the leader allows change either from followers or from self. His interest is not in who designs the change but that the change when implemented will lead to the development of the common goal. Such a leader assumes that innovative and creative ideas are not limited to any set of people but are widely distributed in the environment. The work of the leader is to lead such that people seek positive behaviors and enact them for the common good. Amah (2019) developed a typology that contained the two ways of categorizing mindset shown in Figure 6.

Figure 7. Typology of Leadership Mindset (Amah, 2019, p.125)



The typologies in Figure 7 indicate the leadership nature in Africa, and why the poverty level has not improved despite the increasing FDI and GDP. Jallow (2014), Johnson (2010), and Kumuyi (2007) description of leaders in African places most on quadrants 1 and 2. Fixed/external leaders give the impression that they care for people. However, they only care for those within their inner circle; those who subscribe to their leadership style and who obey without question. This inner circle comprises the "praise singers" who exist to sing the praise of the leader while executing his judgment on those considered to be outsiders. The fixed/internal leader is in leadership for self and for prestige. Even the praise sing-

ers do not get anything from him. They are slaves who, when not required, are dumped, and discarded like waste products. Since leaders in the two quadrants believe they have custody of intelligence and creativity, they work to become life presidents as no other can be found to take their place. They remain in power even when it is evident that their rule is not benefiting the nation (see Figure 5). When these leaders eventually leave office, they leave the country more miserable and more divided than they met it, as their departure creates a vacuum since they never trained successors.

The growth/external leaders lead because they care about the wellbeing of the people and exist to create growth in the nation. They work with people and are open to suggestions from people. They believe that they do not have the solution to the nation's woes, and so work to create an environment in which people can unleash their creativity for the common good. They are not dictators, but they make decisions when it is required to drive people to a common goal. Leaders like Nelson Mandela and Joaquim Chissano fall into this quadrant. When these leaders are in office, the nation witnesses growth and the people are better off. They know when they have finished their assignment and will not be coerced to seek office beyond their term. They develop successors and ensure that people identify them and support them for the common good. The third group of African leaders is the growth/internal leaders. These leaders allow change, but such must emanate from them or agree with what they want. They do not want to stay for life in office but would support their "second self" to take over from them. They want their successors to follow in their wake, and so they are quick to take offense when the successor attempts to do otherwise. This group is the source of "god-fathers" in African politics.

Unfortunately for the African continent, most leaders who governed came from the first, second and fourth quadrants. Therefore, the dark side of leadership in Africa is always longer than the bright side of leadership. Africa has the highest GDP growth in the world, has the population, received high FDI, yet could not convert these to economic growth and HDI growth because of the preponderance of leaders from these quadrants. Africa had good economic and HDI growth only during the reign of leaders in quadrant 3. The discrepancy between the performance of leaders in quadrants 1, 2, 4 and 3 shows that indeed globalization can lead to a reduction in poverty, but leadership must have to mobilize resources and people to achieve the growth required. This assertion agrees with the comments of writers (Melber & Southall 2008; Swart 2008; Mills 2011; Afegbua and Adejuwon 2012) that the problem with growth in Africa is the existence of poor leadership and not flow of FDI and other components required for growth. The missing link between globalization and national growth is poor leadership. As demonstrated in the chapter, change can only come from working on the understanding of leadership and leadership mindset. Teaching leaders to adopt the appropriate leadership style without changing their deep-rooted understanding and mindset of leadership amounts to changing culture without changing the assumptions on which the culture is based (Walker & Soule, 2017). Effecting this change is a collective responsibility of the people, structure, and values of the nation. It involves being honest in recognizing and rewarding those leaders who subscribe to values espoused by the country, and less worship of personality. How leaders are elected in Africa will have to be revisited, and people must be willing to do what is suitable for the common good.

CONCLUSION

Globalization has many dimensions. However, only the economic dimension is pursued by nations, although not fully implemented due to restrictions by countries and groups. The level of economic glo-

balization is measured by globalization index, level of FDI, GDP growth and industrial production rate (Karim, Al-Huda & Ahmad, 2009; Kim, 2013). Its effect on any nation is reflected in the levels of HDI, GDP per capita, poverty level, and industrial production rate (Amah, 2019; Zhang & Houghlin, 2006).

This chapter demonstrates that the level of economic development gauged by globalization index, FDI, and GDP growth indicates that Africa received a substantial degree of globalization (see Figures 1 to 3). However, considering the levels of HDI, GDP per capita, poverty level, and industrial production rate, Africa did not convert the globalization to economic development (see Figures 4 and 5). Globalization has the potential to lead to the economic development of the participating nations. However, the quality of leadership in any country moderates the relationship between globalization and economic development. Leadership positions a nation to develop a comparative advantage, foundational structure, and the liberalization needed to compete effectively and to derive the gains of globalization. African leaders did not position their nations to benefit from globalization, hence, the continent remained undeveloped and impoverished despite the levels of globalization occurring in it. Anti-globalists blame investors for this lapse, that they invest only in areas that do not generate development (Bodomo, 2017). It was argued in this chapter that leaders in Africa do not have the right understanding of leadership and leadership mindset needed to drive effective leadership behavior in African leaders. For example, figure 5 shows that the HDI is Africa decreased over a long period in which there were long-serving and life presidents. This means that leaders remained in office even when data showed that their behavior was not converting globalization to economic development. Thus, most African leaders have fixed/internal mindset which only considers self and status and believes that change and knowledge reside in them alone. Therefore, African leaders go any length to stay in office forever. Other types of leadership mindset rampant in Africa are the fixed/external and the growth/internal mindsets, both of which are in leadership for self and status, and they only allow change either because it is driven by them or those in the in-group who are loyal to them. Because of these mindsets, Africa has experienced long periods of the dark side of leadership which has left the continent worse off.

The chapter advocates for African leaders with growth/external mindset. These leaders see leadership as a process of service and concentrate on how followers will be developed and made effective in driving continental growth. The leader creates an environment in which subordinates work to be creative because they are valued and respected. The leader does not see followers as tools to be used and dumped, but as human beings who should be encouraged to be interested in driving growth in the nation. Africa had some periods when such leaders reigned. The period of the presidency of Nelson Mandela and Joaquim Chissano in South Africa and Mozambique are just two of such periods. These periods are described as the bright side of leadership in Africa. They are few in the history of Africa hence, the inability to leverage on their contributions which are eroded during subsequent long periods of dark side of leadership.

What is required in Africa to derive the benefits of globalization are leaders who have the right growth/external mindset. For this to be institutionalized, there must be a change in the political structure in Africa, and people must be mobilized to see their role in the development of their nation. The people of Africa have been so marginalized that they have developed apathy to national development and have lost all hope of future development of the continent. This trend must be changed, and it may require a revolution, not with weapons, but by free provision of information.

FUTURE DIRECTION

Leadership understanding and mindset are not hereditary; they are acquired and can be changed. There is, therefore, the need to study how people develop these and how to change such effectively. Ethics, values, and the understanding of human nature are at the foundation of the formation of mindset. Unethical people are generally selfish and care only for themselves. Such people will have leadership mindsets characterized by being fixed or internal. Those who have values that violate the four foundational natural values will always care about themselves and their gain. Seeing people as tools that have no value except those given by leaders drives the internal mindset which violates the dignity of the human person. Future studies should look at how to effectively instill ethics, good values, and proper understanding of human nature into the African governance structure. Africa is well-positioned to benefit from globalization, but its leadership mindset must change to create the link between globalization and economic development.

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Chapter 9
Globalization of Stock Market, Economic Growth, and Geopolitical Risk: Evidence From Brazil

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ABSTRACT

Although the significance of the foreign investors constructing the significant magnitude of GDP increases for the emerging markets, their equity markets' attractiveness is affected by their vulnerability to geopolitical risk. The purpose of this study is to empirically investigate the effect of the stock market globalization on the correlation between economic growth and geopolitical risk in Brazil. After the dynamic correlation between economic growth and the geopolitical risk in Brazil is obtained by DCC-GARCH(1,1) methodology, the nonlinear autoregressive distributed lag (NARDL) model is employed to examine the asymmetric relationship among variables. The findings demonstrate while the changes in the globalization of the stock market decrease the connection between economic growth and geopolitical risk in the long-run, the positive changes in the participation of foreign investors make economic growth and geopolitical risk more connected the in short-run. Moreover, this impact is asymmetric. This chapter provides valuable implications for international investors and policymakers.

INTRODUCTION

The free movement of capital around the world forms the primary factor of globalization. While the magnitude and the importance of the capital's cross-border flows enhanced rapidly in past few decades, the importance of the foreign capital got even higher for emerging markets as foreign investment constitutes a significant portion of their GDP (Lane and Milesi-Ferretti, 2007; Stulz, 1999). In the last fifty years,

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emerging markets have become substantially more reachable for international investors, allowing companies to choose their preferred market for funding. By finance researchers, this feature of globalization is considered beneficial to both investors and firms (Stulz, 1999). On the other hand, emerging markets' geopolitical risk (GPR) is higher than the developed one's, affecting foreign equity investments negatively (Stulz, 1999). The availability of cross-border investment leads to information asymmetry between domestic and foreign investors, causing reduction in foreign equity investments in case of uncertainty triggered by the political risks (Cooper and Kaplanis, 1994; Stulz, 1999). Caldara and Iacoviello (2018) state that geopolitical risks influence business cycles and global financial markets, therefore they are considered one of the most important elements of investment decisions of central bankers, firm managers, and financial media. Especially, for countries that have a greater geopolitical risk, the impacts of GPR on the investment decisions and financial markets are even more critical (Bouri et al., 2018), also influencing the overall economy and affecting macroeconomic variables like GDP growth negatively. Moreover, the effects of geopolitical risks on the macroeconomic indicators and financial markets vary among countries depending on the regulatory environment and transparency of a country (see Stulz, 1999). In this chapter, we aim to contribute to the extant literature by demonstrating the effect of stock market globalization on the dynamic correlation between economic growth and geopolitical risk in Brazil.

In this study, the foreign holdings of domestic stocks in Brazil are employed as a proxy for stock market globalization. DCC-GARCH(1,1) methodology is utilized to get the dynamic correlation between economic growth and geopolitical risk index for Brazil. Then, in order to examine the asymmetric relationship and cointegrating link between this dynamic correlation and foreign stock holdings, nonlinear autoregressive distributed lag (NARDL) approach is employed. This approach let us to separate the long and short run impacts of the explanatory variables, and to find the asymmetric relationship (Shin et al., 2014). Share price index is also included in the model in order to avoid biased inferences.

The contribution of this study is mainly two folds. First, although the relationship between GPR and economic growth has been examined extensively in the literature, the impact of stock market globalization on this relationship has not been analyzed so far. On one hand, some studies assert that political uncertainty enhances economic growth as it reduces private investment which leads the government to increase expenditure on public investment (Bui, 2018). On the other hand, ample literature demonstrates that political instability influences economic growth negatively by affecting investments and savings negatively (Barro, 1991; Mauro, 1995; Alesina et al., 1996; Jong-a-Pin, 2009). So, there is no consensus on the literature about the relationship between economic growth and GPR. Our chapter sheds more light on this debate by analyzing whether the stock market globalization influences the relationship between economic growth and geopolitical uncertainty in Brazil.

Secondly, this chapter contributes to the literature by demonstrating, the asymmetric impact of the correlation between economic growth and GPR on the stock market globalization. As the influences of geopolitical risk on economic growth and financial markets change among countries depending on the regulatory environment and transparency of a country, changes in the correlation between economic growth and GPR is expected to affect foreign investors investment decisions by signaling the soundness of the economy in that country (see Stulz, 1999). By employing NARDL approach, we intend to show the asymmetric impacts of the increases and decreases in the dynamic correlation between GPR and economic growth on the stock market globalization.

This chapter is structured as follows. Section two explains the variables and methodology, while the third section, empirical findings are stated. The last section concludes the chapter.

DATA AND METHODOLOGY

Data

To examine the relationship between stock market globalization, the dynamic correlation between economic growth and geopolitical risk, and share price index in Brazil, monthly foreign investor participation in the stock market (Bovespa), hereafter FI, is employed as a stock market globalization indicator. The data is obtained from Bloomberg Terminal. Growth in the Gross Domestic Product (GDP) index, hereafter GDPG, is used as an economic growth indicator in Brazil. The data is obtained from the webpage of the Federal Reserve Bank of St. Louis. Geopolitical risk index (GRI), constructed by Caldara and Iacoviello (2018) is employed as a geopolitical risk indicator, which is constructed by scanning the geopolitical tension related news in 11 newspapers. Finally, the monthly share price index, hereafter SPI, is included in the model. We get the data from the webpage of the Federal Reserve Bank of St. Louis. The data period is between January 2004 and December 2019. Monthly data are employed.

The graphical presentations of each variable and the descriptive statistics are demonstrated in Figure 1 and Table 1, respectively.

Figure 1. Historical foreign investors participation, Geopolitical risk index, GDP Index, and Share price index
(a) Foreign Investors Participation (b) Geopolitical Risk Index
(c)Gross Domestic Product Index (d) Share Price Index

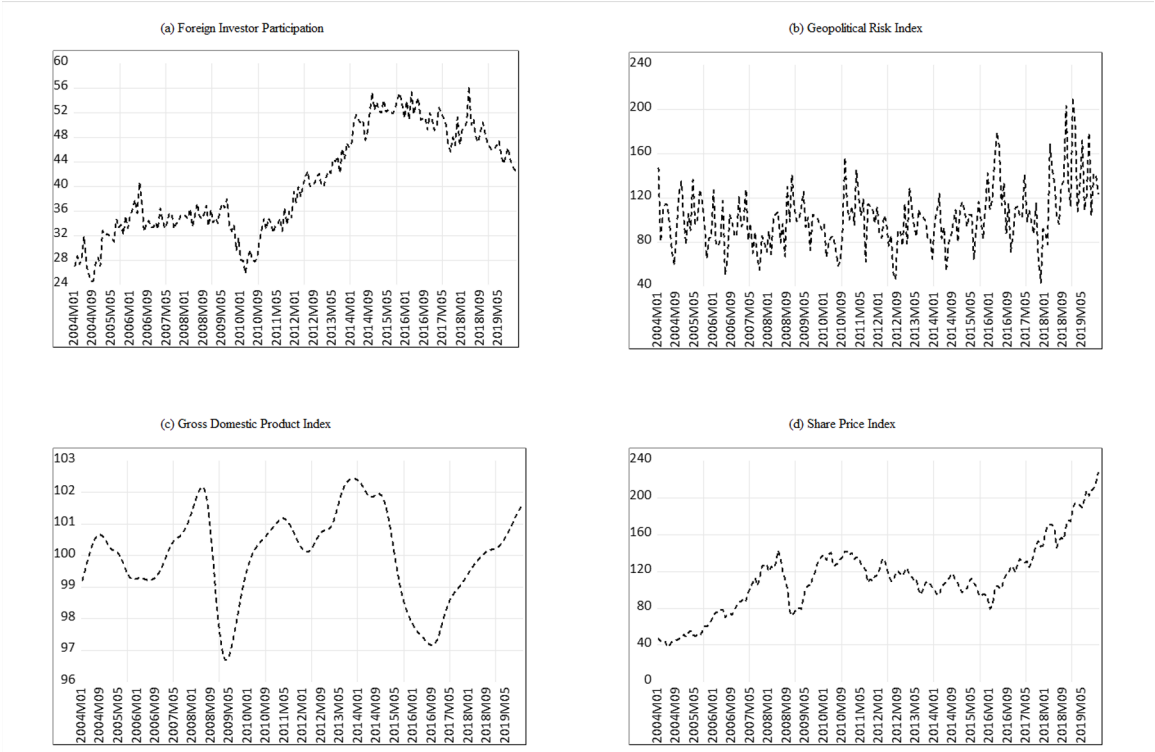


Table 1. Descriptive statistics

			FI	GPI	GDP	SPI
Mean			40.69	102.24	100.05	113.73
Median			39.91	100.09	100.25	112.15
Maximum			56.30	210.80	102.43	227.28
Minimum			24.50	43.02	96.70	37.92
Std. Dev.			8.42	27.91	1.41	37.79
Skewness			0.11	0.92	-0.49	0.43
Kurtosis			1.73	4.87	2.65	3.46
Jarque-Bera			13.13	54.38	8.58	7.50
Probability			0.00	0.00	0.01	0.02
Observations			189	189	189	189

Notes: Descriptive statistics of the data for the period from January 2004 to December 2019 are presented in Table 1. FI, GPI, GDP, and SPI indicate percentages of foreign participation in the stock market, geopolitical risk index GDP index, and share price index, respectively.

Methodology

As the main focus of this study is to examine the relationship between stock market globalization and the connection between economic growth and geopolitical risk, the dynamic correlation between economic growth and geopolitical risk, hereafter COR, is obtained by utilizing DCC-GARCH(1,1) methodology. To obtain the correlation parameters, equation 1, which gives the DCC-GARCH model's correlations, is analyzed.

where x and y are scalers that $x + y < 1$, and $\bar{\theta}=E[\epsilon\_T\ \epsilon\_T\text{^}']$. Q_t^* indicates a diagonal matrix that on its ith diagonal place, there is the square root of Qt's ith diagonal element (see Engle, 2002; Kocaarslan et al, 2018).

Then, in order to analyze the empirical relationship between stock market globalization and the connection between economic growth and geopolitical risk, nonlinear autoregressive distributed lag (NARDL) methodology is utilized. First, augmented Dickey-Fuller and Phillips-Perron unit-root tests are employed to obtain the stationarity characteristics of the variables (Dickey and Fuller, 1979; Phillips and Perron, 1988). NARDL approach necessitates the variables to be integrated of order less than two (Shin et al., 2014; Peseran & Shin, 1998).

In the second step, the Bounds-test procedure is utilized to examine the long-run cointegration among variables. Equation 2, 3, and 4 show the error-correction of the linear ARDL models.

where Δ shows the variables' first-differences. In order to obtain the lag lengths, Akaike Information Criterion (AIC) is utilized, which are presented by p and q. γ and μ demonstrate long-run and short-run coefficients, respectively. In the final step, NARDL models are constructed to examine the asymmetric relationship among variables in the long- and short-run. NARDL models have superiority over the ARDL models in certain ways. First, the existence of the nonlinear relationship between variables might cause misleading result in ARDL models. Second, endogeneity and convergence problems are solved in NARDL models (Shin et al., 2014). Equation 5 presents the long-run cointegrating regression employed in this chapter.

$$y_t = \vartheta^+ x_t^+ + \vartheta^- x_t^- + u_t \tag{5}$$

where xt and yt represent FIt, CORt and SPIt, and and indicate long-term parameters. xt is a kx1 vector of regressors, and it can be shown as the total of the initial value, positive partial sums and negative partial sums (x0 + xt++ xt-). Equation 6 and 7 provide mathematical displays of the positive and negative partial sums, respectively.

$$x_t^- = \sum_{i=1}^{t} \Delta x_i^- = \sum_{i=1}^{t} \max\left(\Delta x_i, 0\right)$$

where demonstrate the constant term. and present the long-run coefficients, and and represent the short-run coefficients.

Finally, long- and short-run asymmetries are investigated by utilizing Wald test (Shin et al., 2014). The long-run symmetry, λ+= λ-, is examined by testing λ+ = - n +/ and λ- = - n -/ equations. The null-hypothesis of, where k equals to 1 and 2, is tested in order to analyze the short-run symmetry.

The results of these analyses are presented in the next section.

Figure 2. Dynamic conditional correlation between GDP growth and change in GPI
Notes: Dynamic conditional correlation between economic growth and changes in geopolitical risk index is obtained by employing DCC-GARCH (1,1).

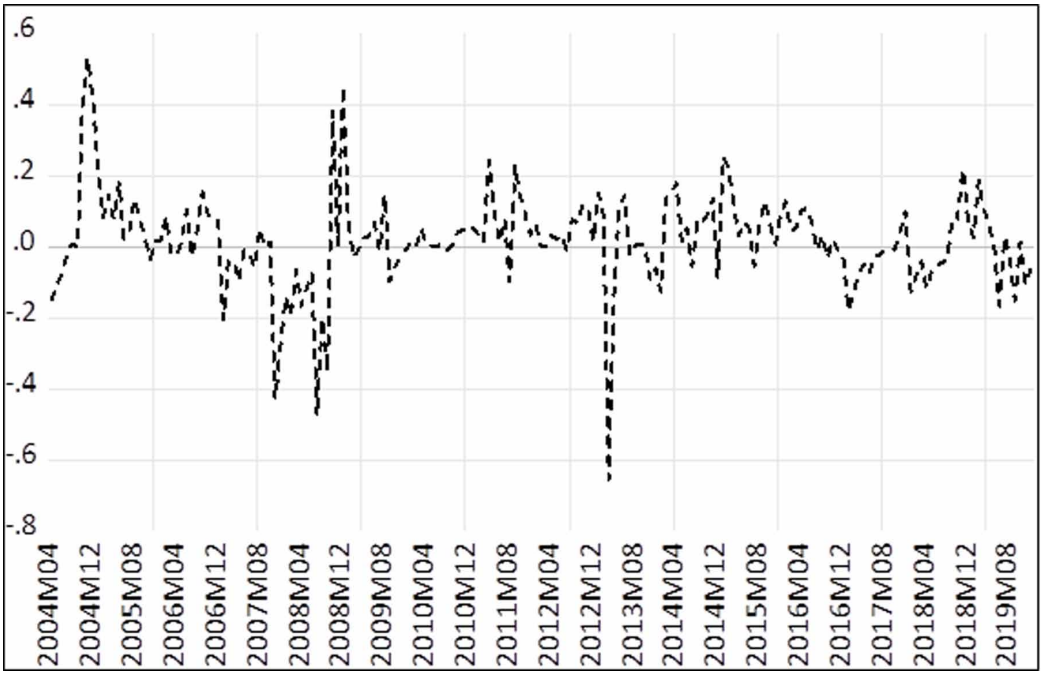


Table 2. Unit-root Tests Results

	Constant			Constant and Trend		
	ADF		PP	ADF		PP
	Stat.	Lags	Stat.	Stat.	Lags	Stat.
FI	-1.607	1	-1.755	-1.589	1	-2.194
GPI	-4.732***	2	-9.726***	-9.828***	0	-10.229***
GDP	-2.439	10	-2.498	-2.412	10	-2.489
COR	-11.885***	0	-12.068***	-12.020***	0	-62.444***
SPI	-0.438	1	-0.113	-1.507	1	-0.912
Panel B: First-differences						
	Constant			Constant and Trend		
	ADF		PP	ADF		PP
	Stat.	Lags	Stat.	Stat.	Lags	Stat.
FI	-20.503***	0	-22.031***	-20.512***	0	-22.406***
GPI	-16.132***	1	-50.597***	-16.095***	1	-54.800***
GDP	-4.159***	9	-3.509***	-4.164***	9	-3.608**
COR	-17.729***	1	-12.172***	-17.681***	0	-62.003***
SPI	-10.386***	0	-10.285***	-10.398***	0	-10.294***

Notes: Unit-root tests results for levels and first-differences are presented in Table 2. FI, GPI, GDP, and SPI indicate percentages of foreign participation in stock market, geopolitical risk index GDP index, and share price index, respectively. Augmented Dickey Fuller and Phillips-Perron are denoted as ADF and PP, respectively. Schwarz Information Criterion (SIC) is used automatically to determine lag lengths. Superscripts ***, **, and * show 1%, 5%, and 10% significance, respectively.

EMPIRICAL ANALYSIS

First of all, as the interest of this chapter is whether the stock market globalization influences the connection between economic growth and geopolitical risk in Brazil, first the dynamic correlation between economic growth and the changes in the geopolitical risk is obtained by employing DCC-GARCH(1,1) methodology. The dynamic conditional correlations between GDP growth and the change in GPI for the sample period is demonstrated in Figure 2.

In order to obtain the stationarity characteristics of variables, ADF and PP unit-root tests are employed. The findings of these analyses for levels and first-differences of variables are shown in Table 2. Results reveal that all of the variables employed in the empirical analyses are either integrated of order 0 or 1, which indicates ARDL and NARDL models that require variables to be integrated of order lower than two can be conducted (see Peseran and Shin, 1998; Shin et al., 2014).

After applying unit-root tests, the long-run cointegrating relationship among variables is examined by conducting bond-test procedure. Table 3 demonstrates the results of these analyses. Except for the model, in which the foreign investor participation is employed as a dependent variable, the null hypothesis of no cointegration among variables are rejected. No long-run impact of the correlation on foreign investors' participation contradicts the literature that states the correlation between economic growth and GPR is expected to influence the foreign investors' participation as it signals the soundness of the economy in that country (see Stulz, 1999).

Table 3. Bounds Tests Results

Cointegration Hypotheses	F Stat.
$F(COR_t/FI_t^+,FI_t^-,SPI_t^+, SPI_t^-)$	17.728***
$F(FI_t/COR_t^+,COR_t^-, SPI_t^+, SPI_t^-)$	1.842
$F(SPI_t/FI_t^+,FI_t^-, COR_t^+, COR_t^-)$	5.215***

Notes: Bounds testing procedure results are presented in Table 3. . FI, COR, and SPI indicate percentages of foreign participation in stock market, dynamic correlation between GDP growth and geopolitical risk index changes, and share price index, respectively. Superscripts ***, **, and * show 1%, 5%, and 10% significance, respectively. *Superscripts + and - show positive and negative changes in related variables, respectively.*

Finally, NARDL models are empirically examined in the last step. Table 4, 5, and 6 demonstrate the results of the NARDL analyses, and Table 7 shows the Wald tests results, which provide whether the impact is symmetric or not.

Table 4. NARDL Estimation Results: $\triangle COR_t$ as a Dependent Variable

Panel A: Estimated coefficients **(Adj. R^2= 0.366)**				
EV	**Coefficient**	**Robust Std. Error**	**t-statistic**	**Prob.**
C	0.05785	0.034505	1.677	0.095
COR_{t-1}	-0.70964	0.088242	-8.042	0.000
FI_{t-1}^+	-0.00774	0.00287	-2.695	0.008
FI_{t-1}^-	-0.01042	0.004076	-2.557	0.011
SPI_{t-1}^+	-0.00248	0.000839	-2.958	0.004
SPI_{t-1}^-	-0.00252	0.000832	-3.026	0.003
DFI_t^+	-0.00064	0.00576	-0.112	0.911
DFI_{t-1}^+	0.015803	0.006213	2.543	0.012
DFI_t^-	0.000911	0.007906	0.115	0.908
$DSPI_t^+$	-0.00091	0.00242	-0.375	0.708
$DSPI_t^-$	-0.003	0.004232	-0.708	0.480
$DSPI_{t-1}^-$	0.00535	0.003025	1.769	0.079
$DSPI_{t-2}^-$	-0.00452	0.003183	-1.420	0.157
Panel B: Long-Run Coefficients for the asymmetric parameters				
FI^+	-0.011***		FI^-	-0.015**
SP^+	-0.003***		SP^-	-0.004***

Notes: Panel A demonstrates the results from the error correction representation of the NARDL model for the case of dependent variable $\triangle COR_t$. . FI, COR, and SPI indicate percentages of foreign participation in the stock market, the dynamic correlation between GDP growth and geopolitical risk index changes, and share price index, respectively. Augmented Dickey Fuller and Phillips-Perron are denoted as ADF and PP, respectively. Schwarz Information. EV demonstrates the explanatory variables. Heteroskedasticity and autocorrelation robust standard errors and t-statistics, obtained via Newey-West (1987), are shown. The positive and negative partial sums are demonstrated with superscripts "+" and "−", respectively. In panel B, the long-run coefficients related to positive and negative changes of the corresponding variables are demonstrated, respectively. Superscripts ***, **, and * show 1%, 5%, and 10% significance, respectively.

Table 5. NARDL Estimation Results: $\triangle FI_t$ as a Dependent Variable

Panel A: Estimated coefficients **(Adj. R^2= 0.222)**				
EV	**Coefficient**	**Robust Std. Error**	**t-statistic**	**Prob.**
C	3.136	1.991	1.575	0.117
FI_{t-1}	-0.095	0.044	-2.189	0.030
COR_{t-1}^{+}	0.688	1.664	0.413	0.680
CORt-1^{-}	0.167	1.303	0.128	0.898
SPI_{t-1}^{+}	-0.013	0.007	-1.743	0.083
SPI_{t-1}^{-}	-0.010	0.019	-0.504	0.615
DFI_{t-1}	-0.326	0.063	-5.197	0.000
$DCOR_t^{+}$	1.226	1.839	0.667	0.506
$DCOR_t^{-}$	-0.475	1.552	-0.306	0.760
$DSPI_t^{+}$	-0.055	0.045	-1.231	0.220
$DSPI_t^{-}$	-0.084	0.046	-1.849	0.066
$DSPI_{t-1}^{-}$	0.145	0.031	4.728	0.000
Panel B: Long-Run Coefficients for the asymmetric parameters				
COR^{+}	7.212		COR^{-}	1.75
SPI^{+}	-0.135*		SPI^{-}	-0.102

Notes: Panel A demonstrates the results from the error correction representation of the NARDL model for the case of dependent variable $\triangle FI_t$. . FI, COR, and SPI indicate percentages of foreign participation in the stock market, the dynamic correlation between GDP growth and geopolitical risk index changes, and share price index, respectively. Augmented Dickey Fuller and Phillips-Perron are denoted as ADF and PP, respectively. Schwarz Information. EV demonstrates the explanatory variables. Heteroskedasticity and autocorrelation robust standard errors and t-statistics, obtained via Newey-West (1987), are shown. The positive and negative partial sums are demonstrated with superscripts "+" and "−", respectively. In panel B, the long-run coefficients related to positive and negative changes of the corresponding variables are demonstrated, respectively. Superscripts ***, **, and * show 1%, 5%, and 10% significance, respectively.

Table 5 presents the impacts of the dynamic correlation between economic growth and geopolitical risk and share price index on foreign investor participation. As demonstrated in Table 3, there is no long-run cointegration among variables when foreign investor participation is included in the model as a dependent variable. In the short-run, only the negative changes in share price index have significant impact on foreign investor participation, and it is asymmetric. The negative changes in the share price index reduce participation of the foreign investors in stock market, which indicates it decreases the globalization in stock market.

Finally, the impacts of foreign investor participation in the stock market and the connection between economic growth and geopolitical risk on the share prices are demonstrated in Table 6. Both negative and positive changes in the percentages of foreign investors in Brazil decrease the share price index in the long-run. However, the impacts of these changes are asymmetric. In the short-run, the negative changes in the stock market globalization reduce the share price index in Brazil. This finding resonates well with the price pressure hypothesis that states increases in the prices that occur because of the temporary illiquidity with the increase in the foreign participation will be reversed in the long-run (see Warther, 1995; Shleifer, 1986; Clark and Berko, 1997). Moreover, the dynamic correlation between economic growth and geopolitical risk significantly affects the share price index in Brazil. The positive changes in the connection between economic growth and geopolitical risk decrease the share price index, and the impacts of positive and negative changes in correlation on the share price index are asymmetric.

Table 6. NARDL Estimation Results: $\triangle SPI_t$ as a Dependent Variable

Panel A: Estimated coefficients **(Adj. R^2= 0.222)**				
EV	**Coefficient**	**Robust Std. Error**	**t-statistic**	**Prob.**
C	7.296	2.540	2.872	0.005
SPI_{t-1}	-0.107	0.033	-3.222	0.002
FI_{t-1}^{+}	-0.353	0.131	-2.697	0.008
FIt-1^{-}	-0.599	0.160	-3.745	0.000
COR_{t-1}^{+}	-1.528	4.417	-0.346	0.730
COR_{t-1}^{-}	0.346	4.326	0.080	0.936
$DSPI_{t-1}$	0.330	0.066	4.998	0.000
$DSPI_{t-2}$	-0.132	0.072	-1.836	0.068
$DSPI_{t-3}$	0.103	0.066	1.560	0.121
DFI_t^{+}	-0.164	0.355	-0.461	0.646
DFI_t^{-}	-1.108	0.374	-2.961	0.004
$DCOR_t^{+}$	-20.774	5.784	-3.592	0.000
$DCOR_t^{-}$	3.729	4.146	0.899	0.370
$DCOR_{t-1}^{-}$	-14.591	5.891	-2.477	0.014
Panel B: Long-Run Coefficients for the asymmetric parameters				
FI^{+}	-3.312***		FI^{-}	-5.615***
COR^{+}	-14.337		COR^{-}	3.247

Notes: Panel A demonstrates the results from the error correction representation of the NARDL model for the case of dependent variable $\triangle SPI_t$. . FI, COR, and SPI indicate percentages of foreign participation in the stock market, the dynamic correlation between GDP growth and geopolitical risk index changes, and share price index, respectively. Augmented Dickey Fuller and Phillips-Perron are denoted as ADF and PP, respectively. Schwarz Information. EV demonstrates the explanatory variables. Heteroskedasticity and autocorrelation robust standard errors and t-statistics, obtained via Newey-West (1987), are shown. The positive and negative partial sums are demonstrated with superscripts "+" and "−", respectively. In panel B, the long-run coefficients related to positive and negative changes of the corresponding variables are demonstrated, respectively. Superscripts ***, **, and * show 1%, 5%, and 10% significance, respectively.

Table 7. Wald Test Results

Panel A. Long-run asymmetry			
Dependent variables	**W_{LR}(COR)**	**W_{LR}(SPI)**	**W_{LR}(FI)**
DCOR		0.049	1.097
DSPI	-1.595		3.154***
DFI	0.766	-0.210	
Panel B. Short-run asymmetry			
Dependent variables	W_{SR}COR)	W_{SR}(SPI)	W_{SR}(FI)
DCOR		1.589	4.187**
DSPI	4.813***		1.545
DFI	0.654	12.783***	

Notes: Findings of the Wald test for long- and short-term asymmetries are demonstrated in Table 7. FI, COR, and SPI indicate percentages of foreign participation in stock market, dynamic correlation between GDP growth and geopolitical risk index changes, and share price index, respectively. W_{LR}(COR), W_{LR}(SPI), and W_{LR}(FI) indicate the Wald test for the null of long-run symmetry, and W_{SR}(COR) W_{SR}(SPI), and W_{SR}(FI) indicate the Wald test for the null of the short-term symmetry for the related variables. Superscripts ***, **, and * show 1%, 5%, and 10% significance, respectively.

CONCLUSION

The relationship between economic growth and geopolitical risk is controversial. This study aims to shed more light on this issue by exploring the impact of stock market globalization on the dynamic correlation between economic growth and geopolitical risk in Brazil. In order to prevent any bias, the share price index is also included in the model.

The main findings can be listed as follows. First, we demonstrate that changes in foreign participation in the stock market reduce the interconnection between economic growth and geopolitical risk. On the other hand, the effects of positive and negative changes become asymmetric in the short-run, and only the positive changes influence the correlation between economic growth and geopolitical risk. As the stock market globalization increases in the short-run, the connection between economic growth and geopolitical risk increases. Foreign investors are more vulnerable to geopolitical uncertainties than the domestic investors. Therefore, as the portion of foreign investors increases, the negative impact of geopolitical risk will be higher. As the significant magnitude of the GDP in emerging markets is coming from the foreign investors, the connection between economic growth and geopolitical risk will be greater when the portion of foreign investors increases in the stock market (see Lane and Milesi-Ferretti, 2007; Cooper and Kaplanis, 1994; Stulz, 1999). Secondly, our findings also show that both positive and negative changes in the stock market globalization affect the share price index in Brazil negatively in the long-run. On the contrary, only the negative changes influence the share prices in the short-run. The reduction in the stock market globalization reduces the share prices. These findings resonate well with the price pressure hypothesis (see Warther, 1995). Third, our analyses indicate that the link between the share price index and the correlation between economic growth and geopolitical risk is bidirectional. In the short-run, the negative changes in share prices increase the connection between economic growth and geopolitical risk. Likewise, the positive changes in the correlation influence the share price index negatively, and this impact is asymmetric. Finally, findings of this chapter show that while the stock market globalization is affected by neither the changes in the correlation between geopolitical risk and economic growth nor the share price index in the long-run, negative changes in share prices reduce the foreign participation in the stock market of Brazil in the short-run.

We believe that this study provides valuable insight with respect to the role of globalization in stock markets in influencing the correlation between economic growth and geopolitical risk. Moreover, by presenting the effect of economic growth and GPR correlation on the foreign holdings of stocks, our analyses indirectly offer the role of regulatory environment and transparency of a country to attract foreign investors. The findings of this chapter can be used by policy makers to manage the effects of political instability on economic growth, and international investors in their portfolio formation decisions.

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Chapter 10
Institutional, Economic, and Social Impacts of Globalization and Liberalization:
Financial Performance Analysis in the Context of Globalization – An Analysis for the EU and Turkey

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ABSTRACT

The present study aimed to rank the financial development levels of European Union (EU) nations and Turkey based on selected financial and economic indicators. Thus, the most recent annual data for these countries (2017) were analyzed with grey relational analysis (GRA). In the analysis, the decision criteria for 24 EU member nations and Turkey were determined as public debt, public expenditure, unemployment rate, Gini coefficient, and GDP growth. The grey coefficient scores obtained in the analysis revealed the financial performance ranking for the analyzed nations. Based on the entropy weighting method (EM) ranking, the top three countries with highest scores were Ireland, Czech Republic, and Slovakia, while the countries with the lowest scores were Spain, Italy, and Greece.

INTRODUCTION

Globalization, which has economic, political, and cultural dimensions, led to the integration of countries in several fields. However, globalization mostly means the increase in trade volume, financial openness and capital flows (Ter-Minassian, 2007, p. 7). In brief, economic globalization is a multidimensional

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dynamic process that entails the integration of single nation into the world economy, and it could be stated that once it gains a certain momentum, it continuously accelerates and becomes unstoppable (Fischer, 2012, p. 6).

Globalization is considered to have benefits such as more efficient use of the resources, diversification of production, improved living standards, and economic growth. Furthermore, Stiglitz (2018), in a book where great disappointments caused by globalization were mentioned, reported that globalization has several costs, as well as certain achievements. For example, globalization has been effective in the control of infectious diseases such as HIV / AIDS, avian flu, and Ebola. The United Nations (UN) has also been active in the war against terrorism and protection of children and refugees. The control of the ozone holes that occur due to the use of chlorofluorocarbon gases and lead to deadly diseases such as cancer has been successful. These could be counted as short-term achievements of globalization. Also, without globalization, it would not be possible for several countries, especially China, to reach high growth levels. These nations made significant advances by adopting a development model based on technological advances.

A global analysis would demonstrate that open economies grow faster than the closed ones. Economic openness provides the opportunity to innovate and increase productivity. Thus, wages are higher in open economies. It was reported that due to the increase in trade and investments in the last three decades, millions of people were saved from poverty. It could be suggested that this problem arises from developments such as better employment conditions and sales of high quality products at low prices due to the developments in production (OECD, 2017, p.9). However, not every country could benefit from these advances, and the difference between the poor and the rich has increased even further at both national and international levels.

Besides the benefits of globalization, inequality between the nations, as well as unemployment and poverty have increased. The further impoverishment of the poor was also considered as a globalization problem. In fact, several costs of globalization have been felt more than its benefits due to its inability to protect the disenfranchised.

Globalization was often associated with its negative effects on employment, pressures on wages and working conditions. These concerns were based on fears that it would lead to higher competition from low-wage countries, putting pressure on local producers and workers, and could also lead to the closure of factories in the country (European Commission).

In the present study, first, the related literature is reviewed in the background section, then the main focus of the chapter is presented. Later, the issue of financial effects of globalization is discussed. In the data and methodology section, the analysis of the study data is presented based on globalization. In the future research directions section, the topics that were not covered in the present study but could contribute to the literature are discussed, and finally, the study findings are presented.

BACKGROUND

Globalization introduced both challenges and opportunities. Responding to these novelties falls into the realm of both governments and citizens. The globalized economy required the acceptance of certain conditions. These conditions created an environment that favored developed nations.

Dollar & Kraay (2004) attempted to determine the effects of globalization on developing countries. Half of the developing countries made considerable progress in trade. Improvements in the removal of tariffs were also effective in this progress. These nations fill the gap between them and developed countries, while others are falling further behind. They reported that the acceleration of economic growth led to a proportionate increase in the income of the poor. Also, Streeten (1998) argued that globalization created several opportunities for many countries and people. Social indicators such as literacy, school enrolment, infant mortality, and life expectancy improved significantly during the last few decades. Globalization was particularly good for Asian growth in production and capital ownership. Afzal (2007) attempted to determine the impact of globalization on economic growth in a study conducted with Pakistani data for 1960-2006. Based on the findings, public sector and private investments stimulated each other, leading to economic growth. Openness and financial integration did not have a short-term impact on economic growth. Pakistani economy would clearly benefit from globalization if it would adopt sound policies.

There are also several studies which reported that globalization had negative effects on income and wage inequality, and unemployment. For example, Azzimonti, Francisco & Quadrini (2013) reported that financial liberalization movements have accelerated since the 1980s; however, the analysis of OECD (Organization for Economic Co-operation and Development) nations revealed that public debt has increased significantly. Another negative consequence of financial liberalization was income inequality. Thijs & Mohen (2008) stated that income inequality is between the employees and shareholders. They also suggested that international competition in goods markets decreased the rent on labor, while (positive) rent levels on capital facilitated future R&D investments. Atif et al. (2012) indicated that increased globalization deteriorated income distribution in developing countries. Fischer (2012) reported that the loss of the discretionary authority of the governments on domestic economy, the relative size of the industries, the employment prospects of low-skilled and high-skilled workers, and the income distribution are the unavoidable long-run consequence of economic globalization. In an empirical study, Burtless (1995) and Dreher & Gaston (2008) reported that economic globalization in OECD countries led to wage inequality. Asteriou, Dimelis & Moudatsou (2014) attempted to determine the correlation between income inequality and globalization in EU-27 countries for 1995-2009 based on commercial and financial indicators. The findings suggested that open trade leads to an equalizing effect, while financial globalization through FDI, open capital accounts and stock market capitalization has been the driving force of inequality in the EU-27 since 1995.

In another study, Meschi & Vivarelli (2007) addressed the distribution outcomes of trade flows in 70 developing countries (DCs) during the 1980-1999 period. Their findings suggested that there was a weak correlation between total aggregate trade flows and income inequality. However, once they disaggregated total trade flows based on the origins and destinations, they found that trade with high income countries worsened income distribution in DCs, both due to imports and exports. This finding was an initial support to the hypothesis that technological differences between trading partners were important in the determination of the effects of open trade on distribution. Furthermore, after the differential impact of trade in middle income DCs vs low income ones was tested, it was observed that the above-mentioned finding only held for middle income countries (MICs). This evidence could be interpreted based on the greater potential for technological upgrades in MICs both due to their higher "absorptive capacity" and superior ability to serve differentiated and high-quality markets of the developed world. Streeten (1998) reported that economic liberalization, technological advances and competition in the labor product market leads to economic weaknesses. Institutional and social weaknesses were also among

the experienced problems. The unemployment problem has increased significantly, especially in Africa and several parts of the world.

Several studies were also conducted on the variations in public expenditures due to globalization. Although public spending is expected to decrease due to the changing role of the state in globalization, this has not been the case due to the experienced social risks. Garrett & Mitchell (2001) determined a consistent negative correlation between open trade and spending. Globalization did not cause a pervasive race to the bottom in welfare state regimes. Nor have all governments responded to market integration by increasing their welfare state efforts. Plumber et al. (2005) reported that globalization had no impact on public spending based on international openness. Rodrik (1998) found that trade exposure was associated with higher government spending and Quinn [1997] reported that capital mobility was also associated with a bigger government.

Furthermore, Kim, Lin & Hsieh (2018) empirically investigated the impact of globalization on government size and debt in developed and developing countries with Panel heterogeneous cointegration techniques. They concluded that globalization increased public expenditures due to open trade and public expenditures decreased with financial, social and political globalization. Public debt, on the other hand, increased with financial and commercial openness, and decreased with social and political globalization.

Azzimonti, Francisco & Quadrini (2014) reported that public debt increased due to financial integration in developed countries. Barış (2019) analyzed the impact of globalization on foreign debt in developing countries. In panel data analysis, KOF Globalization Index was used to measure globalization. It was determined that globalization increased the external public debt in developing countries.

MAIN FOCUS OF THE CHAPTER

The present study aimed to determine the effects of globalization on financial performance for EU (European Union) countries and Turkey based on selected economic and financial indicators. The selected financial and economic indicators were analyzed with Grey Relational Analysis (GRA) to rank the financial performances of these 25 countries.

FINANCIAL EFFECTS OF GLOBALIZATION

Globalization is a popular and controversial concept and introduced an increase in trade and liberalization policies and a decrease in transportation and technology transfer expenditures. The effects of globalization were generally analyzed based on economic growth, employment and income distribution. And previous studies analyzed its social effects based on poverty, human and labor rights, environmental problems, etc. The debate on these effects of globalization is still ongoing. Discussions have been methodologically addressed based on the interaction between history, economy, politics and other social sciences. Since the definition of globalization is not clear and it has several dimensions, it was observed that there are strong advocates who claim that globalization has been a success, while others criticize its failures (Lee & Vivarelli, 2006, p.3).

In fact, the effects of globalization could be different and inequal on different nations and even within the same country. The gobal economy has become significantly unequal during the last two centuries. During the last two decades, the period of second globalization, a slowdown in this secular trend was

observed due to the partial convergence of the per capita income in South East Asia, coastal China and part of the urban India with that of the developed nations. However, also an increase in the income gap between developed nations and all other developing and transitional countries was observed, as well as a reversal in the trend towards lower domestic inequality in several countries. While the debate on the causes of these changes is not over yet, initial evidence demonstrated that in part, these developments were due to the popularization of the new global market paradigm (Cornia, 2003, p. 2003).

After the World War II, the technology-based achievements of industrialized Western countries in productivity growth have been emphasized. Due to the existence of these different production methods and commercial institutions in this period especially in the United States of America (USA), the USA emerged as an economic leader. The others have started to be called the followers. It was required of these nations to seize the opportunities to catch leading countries. The followers were negatively affected by the 1973 Oil Crisis (Abramovitz, 1986, p.385). Since 1970's and 80's, the foreign debt requirements of developing countries increased significantly. According to Ataç (2013), the causes of this development included oil price increases, rising interest rates due to inflation and tight monetary policies, rising borrowing costs, and recession in national economies, leading to a reduction in export revenues and structural problems.

There are two main differences between the impact of globalization on the USA and on a small African country. First, the fact that the rules of globalization were primarily established by the USA and other developed countries allowed these countries to benefit from globalization. Second, the excessive debt stock of developing countries put them under the control of developed countries. Lender nations could ask for what they want from the borrower countries. This prevented the developing to benefit from the advantages of globalization. The post-1980 period, when the liberalization process was intense, should be analyzed based on these conditions. The industrialized nations had the opportunity to gain an advantage in international markets as well. Underdeveloped and developing countries, on the other hand, tried to exist in international markets, while struggling with their structural problems. Most developed nations did not act like this, including the USA. Corporate interests that formed globalization to lower wages were not concerned with correcting this problem. They considered lower salaries advantageous. They also opposed the taxes imposed to avoid significant income losses of the workers (Stiglitz, 2018, p. 23-29).

As reported by the World Bank (2002), developed countries used the advantage of growth better when compared to others. Thus, the gap between the rich and the poor became more evident. Although opportunities have emerged to improve the investment environment in developing countries in the post-1980 period, around 2 billion people globally still could not benefit from the opportunities introduced by globalization and live in poverty.

Although economic openness and technological developments are considered as important requirements for increasing productivity, they also had the tendency to decrease the share of labor in national economies. This was felt more clearly especially by the unqualified workforce.

The shares of labor in national income and transitional costs were reduced as production factors moved from import-competitive industries to export industries, or from traditional industries to more modern industries. Laid-off workers could stay unemployed for a period of time, some certain may be scrapped, workers may need to relocate to another quarter or region to find work; etc. In the new economic process, new professions emerged, Several new jobs requires higher skill levels such as repair and programming in robotics (OECD, 2017, p.6).

Globalization, which promised new job opportunities, has led to the unemployment of unqualified workforce or to work in very low wage jobs. Globalization was mostly managed by large multinational

corporations and financial institutions in developed countries. This led to the creation of an environment that benefited these organizations. The costs that globalization forced on especially the underdeveloped and developing countries set aside, they had to accept the consequences of globalization. Otherwise, they would be left with the threat of exclusion from international markets (Stiglitz, 2018, p. 20-23). The negative impact of globalization on employment was also observed in EU countries. The most vulnerable EU industries were with predominantly low-skil jobs, including textiles, clothing, footwear and leather, basic metals and manufactured metal products, and manufacturing industries (European Parliament, 2019).

The globalization led to changes in the economic role of the state as well. In this process, the nation-states were weakened. The state started to play only a regulatory role in the economy, promoting private sector activities.

The changes in public spending due to globalization were generally explained with the compensation and efficiency hypotheses. Based on the efficiency hypothesis, public expenditures tend to decrease due to the pressure of the markets with globalization. The state channels public spending towards the development of the market. Social and service expenditures has the potential to disrupt the markets. Public spending leads to a short-term borrowing requirement, which in turn leads to an increase in future taxes (Garrett, 1999, p.5-6).

In 1996, US President Clinton announced that the age of big governments was over. The states attempted to get smaller through reduction of public expenditures and tax reductions. The suggested outflow policies aimed to reduce and possibly eliminate as many items as possible in budget expenditures, while it proposed inflows based on privatizations and to tax reductions. This was implemented directly via significant tax cuts and indirectly via prevention of tax erosion (Angelini, 2010, p. 5).

Based on the Compensation hypothesis, Rodrik (1998) argued that public expenditures did not decrease due to the increase in the social needs of individuals against the risks introduced by globalization.

The increase in social problems such as unemployment, income inequality and poverty also led to a change in the role and functions of the state. Even though Keynesian policies were considered outdated in that period and the intervention of the state in the economy was considered as ineffective, the experienced inequalities increased the need for social spending.

As Garrett (2000) stated, in the new economic system, globalization had political - effects that may increase the state incentives to redistribute wealth and risk in favor of short-term losers in the market in addition to the well-known competitiveness/efficiency constraints.

In developing countries, certain reforms required higher public spending levels. When the domestic market is opened rapidly, the government would feel the pressure to assist the newly unemployed or the capital interests due to the impact of foreign competition on their activities. The quicker the market is opened, the greater the problems experienced by certain individuals or industries and the greater the pressures for public assistance would be. Thus, public spending would likely to increase. In developing countries, where public expenditure and taxation levels are lower and, as previously argued, the need for public spending is higher, there would pre pressures to raise the taxes. However, since tax hikes disrupt economic activities and discourage incentives, attention should be paid when raising taxes. It should be noted that when a country opens its borders to free trade, she may lose certain revenues due to the elimination or reduction of import duties (Tanzi, 2004, p. 11).

Globalization required both industrialized and developing countries to reform their financial structures. However, developing nations encountered different problems in this process. Many had to increase public expenditures especially in certain areas. These included expenditures to improve the national infrastructure and institutions, to finance eventual policy correction costs, to compensate or retrain certain

segments that were affected by rapid globalization, and to replace the traditional, primitive and inefficient system of social security with a minimal and modern one. Initially, public revenues should be utilized more efficiently to prevent the aggravation of fiscal difficulties and to finance further spending with improved productivity or the elimination of unnecessary expenditures. If these efforts fail, or prove to be insufficient, these nations should reform their tax systems to increase tax revenues (Tanzi 2004, p. 17).

Currently, even high income countries feel the pressure as governments face excess demand for public services and due to the difficulties to maintain the revenues required to finance higher expenditures or the services at accustomed levels. The mismatch of desires and means is an old and common story, hardly unique to governments, and not any easier for its banality. Changing world economic conditions, the globalization of production and markets, and the economic awakening of much of the world's population, have contributed to the problems confronting governments of affluent countries even as they have made possible some of the most exciting developments of modern times. (Hines Jr., 2009, p.1).

It could be argued that public debt increased significantly in several developed countries in the last three decades. For example, in OECD countries, the public debt to GDP ratio of 30% in the 1980s increased to 50% by 2005. Similarly, similar trends were observed in the USA and Europe. Public debt could increase due to higher defense expenditures during wars and business cycle fluctuations. The budget deficit and surplus have minimizing impact on the distortionary effects of taxation (Azzimonti, Francisco & Quadrini, 2014, p.2267). After a period of fiscal distress in the early 1990s, the fiscal deficit and public debt reached troublesome levels (Tanzi, 2004, p.15).

DATASET AND METHODOLOGY

The present study aimed to rank the financial performances of EU member nations and Turkey based on selected financial and economic indicators. For this purpose, the most recent data (2017) available for these countries were analyzed with GRA.

Dataset

In the study, primarily the most recent economic data (2017) for Austria, Belgium, Bulgaria, Crotia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherland, Poland, Portugal, Romania, Slovenia, Spain, Sweden, and Turkey were obtained. Croatia, Cyprus and Malta, for which the data were not available, were excluded from the analysis. The study data were compiled from OECD, World Bank, IMF databases.

Decision criteria for the countries of analysis were determined as public debt, public expenditures, unemployment rate, Gini coefficient, and GDP growth. Detailed descriptions of these criteria are provided in the following section.

Public debt (%) (min) (Pub_debt): General government debt-to-GDP ratio that measures the gross public debt as a percentage of GDP.

Public expenditures (%) (max) (Pub_exp): Public expenditures are cash payments for operational activities of the government when providing goods and services. It includes employee compensations (such as wages and salaries), interest and subsidies, grants, social benefits, and other expenses such as rent and dividends.

Unemployment rate (%) (min) (Unemp_rate): Long-term unemployment includes individuals who were unemployed for 12 months or more. The long-term unemployment rate reflects the rate of individuals who were unemployed for a long-term to all unemployed.

Gini coefficient (min) (Gini_coeff): The Gini coefficient simply compares accrued proportion of the population with their accrued income rate, and it veries between 0 in case of perfect equality and 1 in case of perfect inequality.

GDP growth (%) (max) (Gdp_growth): It is the annual percentage growth rate in GDP at market prices based on constant local currency. Aggregates are based on constant 2010 U.S. dollars. GDP is the sum of gross value added by all domestic producers plus any taxes on these products minus any subsidies not included in the value of the products. It is calculated without deductions for depreciation of manufactured assets or depletion and degradation of natural resources.

Methodology

Grey system theory was originally developed by Deng (1982). The "greyness" reflects incomplete or unknown information; thus, an element in an incomplete message is considered a grey element. The Grey System is employed in agriculture, ecology, economy, meteorology, medicine, history, geography, industry, earthquakes, geology, hydrology, irrigation strategies, military affairs, sports, traffic, management, material science, environment, biological protection, judicial system, etc (Deng, 1989, p. 1). "Grey relation" reflects the measurements of varying correlations between two systems or between two elements that are observed in a system over time. The analysis method that measures the correlations between the elements based on the degree of similarity of developmental approaches, is called "grey relation analysis" (Feng and Wang, 2000, p. 136).

Standalone GRA could be used for the solution of multi-criteria decision problems or it could be integrated with other methods. In this method, where both qualitative datasets and quantitative datasets could be employed, the degree of gray coefficient is calculated with two methods based on whether the significances of the criteria are equal. If the criteria are of equal significance, the mean weight (MW) method provides an equal weight for all criteria, where the total weight is 1. When the significances of the criteria are different, weight determination becomes important and certain weighting methods such as AHP, AHS, Dematel, SWARA, MACBETH, CRITIC and Entropy (EM) could be employed. In the present study, Entropy method, which is a frequently used objective weighting method, was preferred.

The GRA procedures are summarized below (Wu, 2002, p. 211):

Step 1: Generate the referential series of $x_0 = (x_0(1), x_0(2), ..., x_0(j), ..., x_0(n))$ with j entities, and x_i is the compared series of $(x_i(1), x_i(2), ..., x_i(j), ..., x_i(n))$ where i=1,2,3…,m. The compared series x_i can be represented in a matrix as follows:

$$X_i = \begin{bmatrix} x_1(1) & x_1(2) & ... & x_1(n) \\ x_2(1) & x_2(2) & ... & x_2(n) \\ ... & ... & ... & ... \\ x_m(1) & x_m(2) & ... & x_m(n) \end{bmatrix} \quad (1)$$

Step 2: Normalize the data set. Data could be treated with one of the three methods; i.e., larger-is-better, smaller-is-better, and nominal-is-best. For larger-is-better transformation, $x_i(j)$ can be transformed to $x_i^*(j)$: The formula is defined as follows:

$$x_i^*(j) = \frac{x_i(j) - \min_j x_i(j)}{\max_j x_i(j) - \min_j x_i(j)} \tag{2}$$

where $\max_j x_i(j)$ is the maximum value of the entity *j* and $\min_j x_i(j)$ is the minimum value of the entity *j*. For smaller-is-better, the formula to transform $x_i(j)$ to $x_i^*(j)$ is as follows:

$$x_i^*(j) = \frac{\max_j x_i(j) - x_i(j)}{\max_j x_i(j) - \min_j x_i(j)} \tag{3}$$

For nominal-is-best method, where the target value is $x_{0b}(j)$ and $\max_j x_i(j) \geq x_{0b}(j) \geq \min_j x_i(j)$, then the formula is as follows:

$$x_i^*(j) = \frac{\left|x_i(j) - x_{0b}(j)\right|}{\max_j x_i(j) - x_{0b}(j)} \tag{4}$$

At the same time, the referential series x_0 should be normalized with one of the Eqs. (2) – (4). In this case, $x_0(j)$ replaces $x_i(j)$. Thus, the normalized referential series x_0 becomes $x_0^* = (x_0^*(1), x_0^*(2), ..., x_0^*(j), ..., x_0^*(n))$. After the original data set is normalized with one of the three data transformation methods, the matrix presented in Eq. (1) could be revised as follows:

$$X_i^* = \begin{bmatrix} x_1^*(1) & x_1^*(2) & ... & x_1^*(n) \\ x_2^*(1) & x_2^*(2) & ... & x_2^*(n) \\ ... & ... & ... & ... \\ x_m^*(1) & x_m^*(2) & ... & x_m^*(n) \end{bmatrix} \tag{5}$$

Step 3: Compute the distance $\Delta_{0i}(j)$, the absolute value of the difference between x_0^* and x_i^* at the *j*-th point:

$$\Delta_{0i}(j) = \left|x_0^*(j) - x_i^*(j)\right| = \begin{bmatrix} \Delta_{01}(1) & \Delta_{01}(2) & ... & \Delta_{01}(n) \\ \Delta_{02}(1) & \Delta_{02}(2) & ... & \Delta_{02}(n) \\ ... & ... & ... & ... \\ \Delta_{0m}(1) & \Delta_{0m}(2) & ... & \Delta_{0m}(n) \end{bmatrix} \tag{6}$$

Step 4: Apply the grey relational equation to compute the grey relational coefficient $\gamma_{0i}(j)$with the following equation:

$$\gamma_{0i}(j) = \frac{\Delta_{\min} + \xi\Delta_{\max}}{\Delta_{0i}(j) + \xi\Delta_{\max}} \tag{7}$$

where $\Delta_{\max} = \max_j \max_j \Delta_{0i}(j)$, $\Delta_{\min} = \min_j \min_j \Delta_{0i}(j)$ and $\xi \in [0,1]$.

Step 5: Compute the degree of the grey coefficient Γ_{0i}. If the criteria weights (W_i) are determined, the degree of the grey coefficient Γ_{0i} is computed as follows:

$$\Gamma_{0i} = \sum_{j=1}^{n} [W_i(j) \times \gamma_{0i}(j)] \tag{8}$$

In decision-making processes, the alternative with the highest Γ_{0i} value is the most significant alternative. Thus, the alternatives could be ranked based on Γ_{0i} values.

EMPIRICAL FINDINGS

In the study, the data compiled on selected financial and economic indicators for 24 EU member states and Turkey were analyzed with GRA. Thus, the decision criteria data for national public debt, public expenditure, unemployment rate, Gini coefficient and GDP growth and calculated referential series are presented in the decision matrix in Table 1.

In the study, criterion weight for the GRA were determined with EM, one of the objective weighting approaches. Weights calculated for the criteria were 0.35 for GDP growth, 0.22 for Gini coefficient, 0.17 for public expenditure, 0.14 for public debt, and 0.11 for unemployment rate. Furthermore, the ranking calculated with the MW, in other words, based on the coefficients calculated by assigning an equal weight to each criterion, was also taken into consideration. The results of the GRA conducted with both methods are presented in Table 2.

The review of the gray coefficient results calculated with the MW technique and presented in Table 2 demonstrated that Czech Republic, Slovakia and Estonia were the top 3 countries with highest scores. In this ranking, based on MW, Turkey ranked the 22nd. The countries with the lowest score were Spain, Greece, and, Italy, respectively. In the ranking conducted with EM based gray coefficient scores, the top three countries were Ireland, Czech Republic, and Slovakia. Turkey ranked 22nd again in this ranking, while the three countries with lowest scores were Spain, Italy, and, Greece.

Table 1. Decision matrix and referential series

	min	max	min	min	max
Countries	**Public_dept**	**Public_exp**	**Unemp_rate**	**Gini_coeff**	**Gdp_growth**
Referential	**12.7**	**52.1**	**2.4**	**0.24**	**8.20**
Austria	89.8	48.6	4.8	0.28	2.40
Belgium	118	52.1	6.3	0.26	1.50
Bulgaria	27.9	32.3	5.3	0.40	3.10
Czech Rep.	40.1	40.7	2.4	0.25	2.80
Denmark	47.8	37.6	5	0.26	2.40
Estonia	12.7	35	5.5	0.31	4.80
Finland	69.2	37.9	7.8	0.27	1.70
France	122.1	47.5	9.2	0.29	1.70
Germany	70.4	28.2	3.4	0.29	1.50
Greece	193	46.6	19.2	0.32	1.90
Hungary	87.1	41.6	3.7	0.29	5.10
Ireland	75.2	23.3	5.7	0.30	8.20
Italy	147.3	41.3	10.2	0.33	0.80
Latvia	43.7	43	7.9	0.36	4.60
Lithuania	41.1	31.1	6	0.37	3.60
Luxembourg	29	38.7	5.5	0.33	3.10
Netherlands	65.6	37.8	3.9	0.29	2.60
Poland	66.8	34.2	3.7	0.28	5.10
Portugal	137.9	41.4	6.9	0.32	2.40
Romania	35.9	31.6	4.3	0.35	4.00
Slovakia	63.5	39	6.8	0.24	4.00
Slovenia	83.2	38	5.5	0.24	4.10
Spain	114.7	18.8	15.5	0.33	2.40
Sweden	58.5	31.1	6.4	0.28	2.20
Turkey	28.65	33.9	10.9	0.40	2.80

FUTURE RESEARCH DIRECTIONS

In the present study, selected financial and economic indicators were analyzed with GRA to rank financial performances of 24 EU member countries and Turkey. The ranking was based on the most discussed disadvantages of globalization such as unemployment and income inequality and public expenditures, economic growth and public debt data. These debated effects of globalization differ between developed and developing countries. Since the study included the EU members and Turkey, the scope of the study was quite limited. In future studies, higher number of countries could be analyzed and separate rankings could be determined for developing and developed countries, which would further contribute to the literature.

Table 2. Country ranking with the GRA method

Countries	GRA with MW		GRA with EM	
	Grey coeff.	Rank	Grey coeff.	Rank
Austria	0.648	7	0.600	9
Belgium	0.657	4	0.614	7
Bulgaria	0.564	18	0.510	19
Czech Rep.	0.736	1	0.669	2
Denmark	0.642	9	0.596	10
Estonia	0.658	3	0.615	6
Finland	0.578	16	0.546	14
France	0.553	19	0.525	17
Germany	0.580	15	0.523	18
Greece	0.460	24	0.457	23
Hungary	0.640	10	0.612	8
Ireland	0.655	6	0.712	1
Italy	0.465	23	0.441	24
Latvia	0.584	14	0.557	12
Lithuania	0.546	20	0.505	20
Luxembourg	0.608	12	0.555	13
Netherlands	0.613	11	0.562	11
Poland	0.645	8	0.617	5
Portugal	0.515	21	0.487	21
Romania	0.591	13	0.542	15
Slovakia	0.665	2	0.647	3
Slovenia	0.657	5	0.638	4
Spain	0.410	25	0.409	25
Sweden	0.566	17	0.529	16
Turkey	0.513	22	0.477	22

CONCLUSION

The globalization, which is a multi-dimensional concept, had diverse effects. Financial integration, and developments in transportation and trade have been effective on the economic growth and development in several countries. These could be considered as the advantages of globalization. On the other hand, it is undeniable that there were certain developments that deepened the problem of poverty such as unemployment and income inequality, especially in underdeveloped and developing countries. However, high public became an important problem for several nations, especially the developing countries. Since the 1980s, the last phase of globalization, public debt has started to increase. This increase was associated with the policies that aimed to adapt to the liberalization process and to compete in international markets. Public expenditures, which is the most important indicator of the magnitude of the public sector in

economy, became one of the significant fiscal policy instruments and a topic of debate in globalization. Although there were expectations that public expenditures would decrease with liberalization, this was not the case in practice. With the development in the roles and functions of the state since the 1980s, it started to play a regulatory role rather than production sector for the market. However, the increase in unemployment and income inequality led to an increase in the public expenditures in these fields.

In this study, selected financial and economic indicators were analyzed with GRA to rank financial performances of 25 countries. In the study, two different objective weight determination methods were selected to calculate the criterion weights. Thus, it was possible to compare two different rankings. In the rankings conducted with the both weighting methods, it was observed that the countries with lowest performances were Spain, Italy, and, Greece. It was determined that these countries had the poorest performances based on the study criteria. In other words, data analysis revealed that these were the countries with low GDP growth and high public debt levels.

Similar results were obtained with both methods for the top 5 countries with highest scores. According to gray coefficient results calculated with the MW technique indicated that Czech Republic, Slovakia, Estonia, Belgium and, Slovenia were the top five countries with highest scores. In the ranking conducted with EM based scores, the top five countries were Ireland, Czech Republic, Slovakia, Slovenia, and, Poland. It is observed that Ireland and Poland make a difference in the ranking made according to the two methods. In addition Ireland has the highest GDP growth rate and the lowest public expenditure rate. The high GDP growth levels, close-to-zero Gini coefficients, and the low public debt levels of the top 4 nations, namely Ireland, Czech Republic, Slovakia and Slovenia, were significant. Especially in the EM based analysis, it would be accurate to interpret the ranking based on the criteria weights. Such an analysis of the ranking demonstrated that Ireland, which ranked first, had the highest GDP growth level and the lowest public expenditure level among all countries. Similarly, the high GDP growth rate and low public debt level of Czech Republic, Slovakia and, Slovenia were effective on the EM-based ranking. Furthermore, it has been determined that the countries with the lowest scores in both techniques are Spain, Italy, and Greece. These countries have the highest public debt and unemployment rate and the lowest GDP growth rate compared to other countries.

The review of the ranking of Turkey revealed that it ranked 22nd in the analyses conducted with both methods. However, Turkey was categorically among the lowest ranking 5 nations. It could be suggested that this ranking was due to low GDP growth, high Gini coefficient and unemployment.

Overall, it was observed that the rankings based on the GRA scores calculated with both methods did not differ significantly. However, considering the fact that EM-based ranking weighed the criteria and especially Ireland's ranking, it was found that this method provided findings in parallel to the expectations.

It was not surprising that countries that benefited from the advantages of globalization had higher growth performances. The analysis findings demonstrated that public debt in low-growth countries also tended to be high. Furthermore, the analysis of the countries that ranked better based on financial performance demonstrated that the problem of income inequality was lower in addition to high growth performance.

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KEY TERMS AND DEFINITIONS

Developed Country: The countries with high development levels.
Developing Country: Those other than the developed countries.
Economic Growth: The increase in the production volume of a country.
Globalization: It is dependency and interconnectedness.
Income Inequality: Unequal distribution of income.
Public Debt: Aggregated domestic and foreign debts of a state.
Public Expenditures: The cost of public services.
Unemployment: Inability to find a job despite the desire for employment.

Chapter 11
Digital Marketing in the Globalization Process:
Examples From Real-Time Marketing

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ABSTRACT

It is seen that the global economy has changed significantly as a result of digitalization, which facilitates cross-border communication and transactions. For this reason, businesses must use technology to promote their products or services and to encourage consumers. In this respect, social media platforms provide businesses with real-time opportunities such as running campaign events, promoting products or services. In this study, the concept of digital marketing, which is extremely important for businesses, was examined and the importance of this concept was tried to be explained with examples from real-time marketing activities. Organizations or brands must take advantage of digital marketing opportunities to gain competitive advantage. Especially on social media platforms, companies are thought to be successful as a result of participating in real-time marketing activities and performing these activities appropriately.

INTRODUCTION

As a result of technological developments, globalization is felt quite a lot and becomes a natural situation both in human life and in corporate activities. It can be said that globalization is a process in which businesses or organizations operate internationally. Although it is stated that globalization brings problems such as loss of cultural identity, migration management, it also has benefits such as interaction with new cultures, access to new markets and low-cost products and rapid spread of technology. It is stated that there is a positive correlation between economic globalization, which expresses the exchange and flow of goods, services, and nutrition status, education, income and public health, among the countries and regions of the world (Bergh and Nilsson, 2010). In this sense, along with globalization, threats can arise and opportunities for both humanity and businesses.

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While physical goods and financial flows are one of the distinguishing features of the global economy of the 20th century, it is stated that these flows are decreasing and the globalization of the 21st century is defined by data and information flows. Therefore, digitalization has changed global economies in various ways. The network era, which emerged because of extensive technological changes at the end of the 20th century, significantly increased the spread of information and affected consumers worldwide (Hil and Dhanda, 2004). Digital platforms have reduced cross-border transaction and communication costs, making it easier for businesses to connect with customers and suppliers in other countries (Manyika et al., 2016). Especially in the past century, globalization provided opportunities for big companies. However, as a result of the developments in digital technology, it can be said that globalization offers opportunities for small businesses and entrepreneurs. In today's world, where competition has increased even more because of globalization, businesses need to effectively use marketing activities to create demand for their goods and services. In this sense, because of technological developments and digitalization, the concept of digital marketing is being important.

Marketing has been defined as a management process to meet and forecast consumer needs profitably. While marketing focuses on the customer, it also connects with other business processes to achieve profitability. Therefore, it is stated that digital marketing, which is expressed as the promotion and marketing of products or services in electronic media, can support these targets (Chaffey and Chadwick, 2016). While digital marketing is only about the promotion of products at the beginning, it is seen that today it has become a concept that interacts with people and creates experience. Therefore, it can be said that digital marketing is an effective marketing activity to reach potential customers and to carry out activities for the target market. Today, it is imperative that businesses use technology to promote their products or services and to encourage consumers. In this sense social media platforms, which allow users to interact, provide businesses with opportunities such as conducting campaign activities, promoting their products or services, measuring activity and source of feedback. It also offers social media businesses a real-time marketing opportunity that has a huge impact on users. Along with the technological developments, digitization has changed global economic activities considerably. For this reason, it will be useful to examine the concept of digital marketing, which is important for businesses in the global world, and to explain the importance of this concept with examples from real-time marketing activities.

DIGITAL GLOBALIZATION AND MARKETING

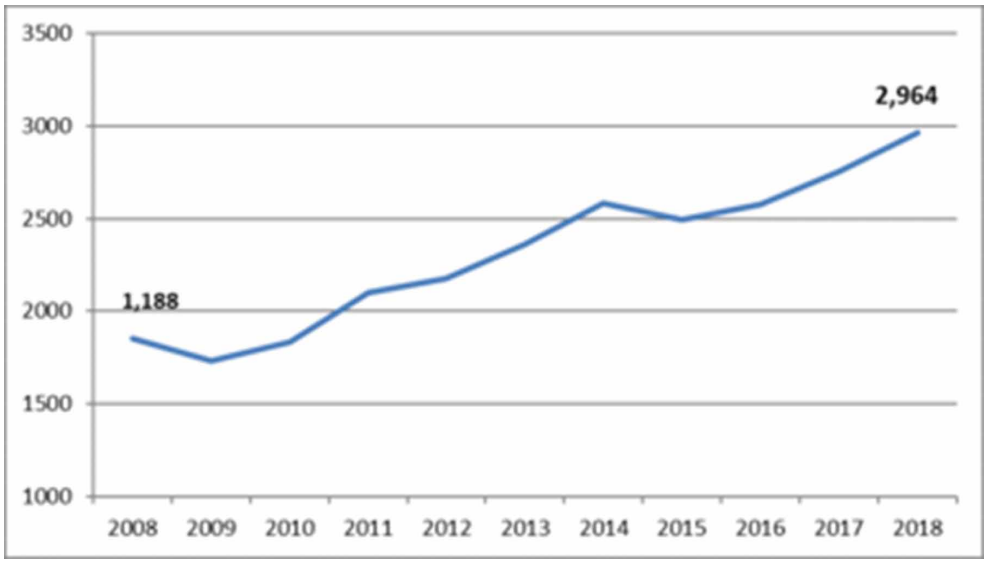
It is seen that globalization, which is explained by the convergence processes of economies and societies (Bergh and Nilsson, 2010) is evaluated in economic, social and political aspects and affects life (Griffith, 2020). It is stated that globalization is not a new concept (Betoret and Betoret, 2020), it is a process that has developed and mutated for centuries (Passaris, 2006). In this context, it is stated by the researchers that globalization is considered as a process based on the beginning of industry and capitalism or that has been going on for thousands of years (Steger, 2003; Mir et al., 2014). In the literature, it is seen that globalization is defined in the fields of political, economic, sociology, anthropology, linguistics and geography. Globalization is defined as a series of economic and political processes resulting from the changing structure of goods and assets (Cerny, 1995). The concept of globalization by Dunning and Lundan (2008) the growth of international production, the way cross-border production and transaction strategies are affected, Rodrik (1997) defines society as the process that includes the international connections of goods, services and capital markets that force them to change their traditional practices. While Dicken

(2011) defines globalization as the diffusion and functional integration of economic activities, Clark and Knowles (2003) defined it as the integration process of the economic, political, cultural and social systems of nations into world systems (Clark and Knowles, 2003). The World Health Organization has stated that globalization has two related elements: the opening of international borders to the flows of goods, services, finance, people, ideas and changes in policies that facilitate these flows (WHO, 2020). It can be said that globalization, which is affected by changing ideas, economic and technological developments (Woodward et al., 2001), accelerates with the developments in internet and information technologies. The role of information technologies is very important in the global world, which is experiencing a rapid transition from the industrial age to the information age. Economic digitalization, which is the driving force of the global economy, can be expressed as the use of internet-based digital technologies in delivering goods and services to consumers. Digitalization has made accessing information faster and more reliable as a result of the use of digital technologies with internet and smart phones in daily life (Elkjaer and Damgaard, 2018). In this context, commercial activities increased because of economic globalization. Economic globalization can be defined as the production of goods and services through trade and investment flows during the acceleration of global market integration without international borders (Passaris, 2006). Developments in information technologies have changed the functioning of national economies and have become imperative for the restructuring of institutions. In order to compete in a globalizing world, companies will have to attach great importance to the digital economy, which is directly related to the development of digital technologies. Various fields such as trade, transportation, education, banking, retail and health services are emerging and developing in the digital economy that changes the habits of the society. Some features of the digital economy are as follows (Valenduc and Vendramin, 2016).

- The main source is data and information flow
- Trading platforms are not limited in the digital economy
- Businesses do not need to be too large to compete with their competitors.
- The same resource and environment can be used to provide different services
- The basic scale of the activities is limited to the Internet

Although there is still no consensus on the founding principles of the digital economy (Degryse 2016), it is stated that it differs from the traditional economy by four main elements as the indifference of the geographical location, the key role played by the platforms, the importance of the network and the use of big data. Characterized by the acceleration and increase of the flow of data and information, 21st century digital globalization is a new form of globalization that supports all kinds of cross-border flows. Adoption of digital technologies provides an opportunity to reduce costs and provide efficiency to businesses in marketing and sales. Digital globalization forces companies to change their organizational structures, products, assets, competitors and business models (Schilirò, 2018). International trade, involving cross-border transactions of goods, services or resources (Ristovska and Ristovska, 2014), has also made considerable progress in the service sector. It is said that the service sector in global trade is not very concrete and its problems are not taken into account because of its complexity, but the trade volume is high in many developed economies and it is growing rapidly in developing economies. In the "Global Trade Report" prepared by the World Trade Organization regarding the services, it is stated that the service trade is much more than it is thought, therefore its share in the global trade is 20% more than expected. It is said that digital technology will enable global trade for services that traditionally require

Figure 1. Share of Information and Communication Technologies (ICT) Supported Services in World Trade 2008-2018 (US $ Billion)
Source: WTO, 2020



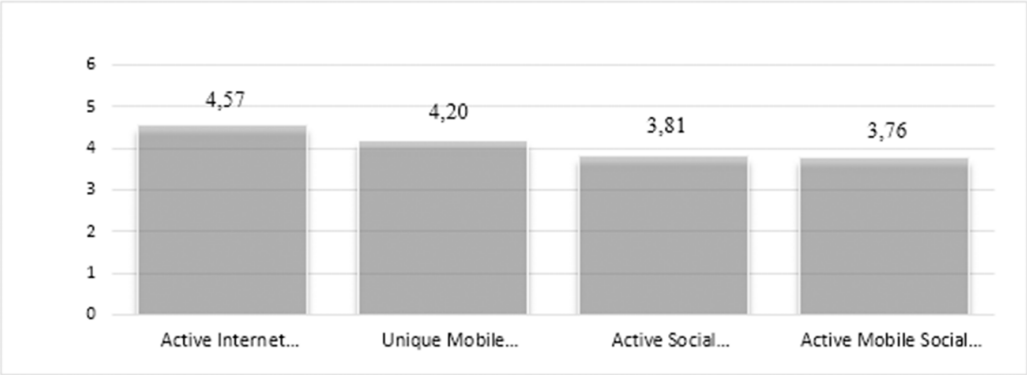
face-to-face interaction, so the importance of investing in digital infrastructure will increase. It is stated that the share of the service sector in global trade can grow by 50% by 2040 (WTO, 2019).

In Figure 1, it is seen that the share of information and communication technologies supported services in the world trade has more than doubled from 2008 to 2018. As a result of technological advances, the cost of digital technologies has been reduced. It is stated that these developments will accelerate the decline in information processing costs, and that the cost of obtaining and using information decreases transaction costs. Therefore, this process emphasizes the low cost of traditional marketing tools such as production, advertising or trade fairs (WTO, 2020).

Globalization, which has been largely measured by product trade and cross-border finance in the past, is rapidly integrating with digitalization because of data and information flow in areas such as social media, video, e-commerce platforms. It is stated that approximately 50% of the services traded in the world are digitized and this rate is gradually increasing. It is stated that approximately 12% of global commodity trade takes place through international e-trade (Bughin et al., 2016). An important part of digital globalization and the economy is e-commerce, which is changing sales strategies and consumer behavior. Cross-border internet traffic is said to have increased 500 times from 2000 to 2016, and will expand by 8 times by 2025. Therefore, it is stated that these developments will have great effects on globalization and will affect developed and developing economies (Lund and Manyika, 2016). Figure 2 shows the digital population rates around the world.

In Figure 2, it is seen that approximately 4.57 billion people, covering 59 percent of the global population, are active internet users. In addition, it is stated that the number of active social media users increased by over 8% between last April 2019-2020 and reached 3.81 billion (Statista, 2020). It can be said that digitalization, which has many effects in human life and in every field, has a strong impact on economic activities from past to present, and this effect will continue to increase. The rapid dissemination and usability of information not only changes the way it does business but also creates changes in

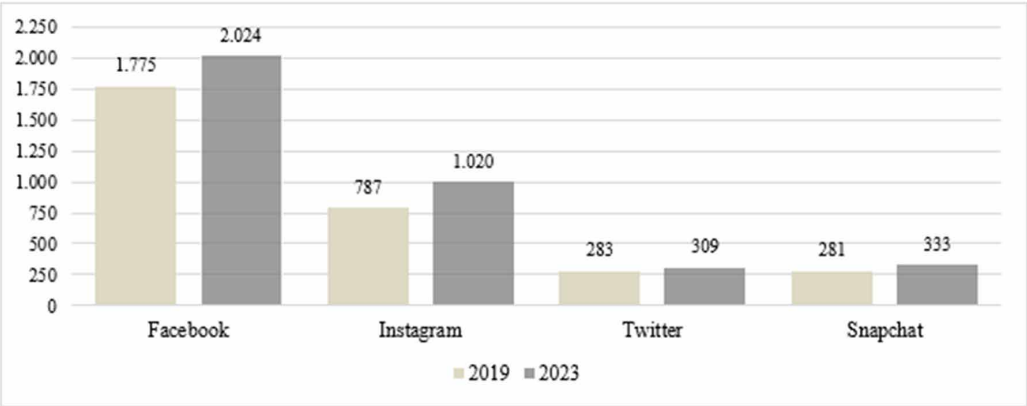
Figure 2. Global Digital Population - Billions
Source: Statista, 2020



all kinds of relationships (Gröning et al., 2020). Especially, a significant part of digital globalization and economy is e-trade, which is changing sales strategies and consumer behavior. Therefore, the increase in the number of internet and social media users that enable people to interact requires understanding the importance of digital marketing to compete from the global trade market.

Digital marketing has been defined as achieving marketing goals using digital technologies and media. It is stated that companies in developed countries especially understand the importance of digital marketing. or digital marketing to be successful, multi-channel marketing communications must be integrated as traditional and modern media such as search engines, social media, online advertising and television (Chaffey and Chadwick, 2016). Especially, that social media platforms are very diverse today and the number of active users is increasing shows that these platforms are also important. In Figure 3, monthly active social media users in 2019 and estimated users in 2023 are given worldwide.

Figure 3. Monthly Active Social Media Users Worldwide-2019-2023
Source: Statista, 2020



In Figure 3, it is seen that monthly active social media users will increase more in 2023 as a result of high user interaction and expanding mobile opportunities. While monthly active Facebook, Instagram, Twitter and Snapchat users average 1.775 billion, 787, 283 and 281 million respectively in 2019, it is stated that these numbers will be 2.024, 1.020 billion, 309 and 333 million in 2023 (Statista, 2020). Social media is seen both as a source of feedback to measure the effectiveness of strategies and as a field where campaign activities can be carried out digitally (McGregor, 2017).

It is stated that establishing a sincere customer understanding and making use of them, managing brand reputation and evaluating effectiveness are important difficulties for digital marketing (Leeflang et al., 2014). Focusing on the connection between humanity and digital technology today, digital anthropology explores how people interact with digital interfaces, how they act and interact through technologies. Digital technologies offer businesses the opportunity to monitor which departments customers visit frequently and how much time they spend there. Businesses can have data such as past purchases of consumers. Therefore, businesses can develop personalized products and increase the probability of purchasing consumers as a result of these data (Kotler et al., 2017).

Digital marketing strategy is basically a multi-channel marketing strategy. For this reason, the interaction between traditional channels and internet channels is very important for developing a digital marketing strategy. The characteristics of an effective digital marketing strategy are expressed as follows (Chaffey and Chadwick, 2016).

- Annual plans are made annually and are compatible with marketing strategy
- Setting targets in digital channels for brand development and leads
- Consistency with consumers using digital channels
- Offering value proposition to consumers within the channel
- Supporting consumers during shopping within the channel
- Managing the online customer lifecycle (website capture, conversion and retention)

Social media, which can provide significant contributions to businesses in brand communication and customer relations (Bruhn et al., 2012; Rishika et al. 2013), offers opportunities to attract new customers and reach existing customers more efficiently (Shideler and Badasyan, 2012; Taiminen and Karjaluoto, 2015). Consumers, who are more oriented towards various social media applications for purchasing decision and information, perceive social media about products and services as a more reliable source of information. The feedback of consumers in social media environments causes them to be more interested in such practices (Mangold and Faulds, 2009). Particularly, consumers interacting with companies through digital channels revealed the possibilities of monitoring and measuring performance (Chaffey and Patron, 2012). In this context, digital marketing enables easier measurement compared to traditional marketing (Hennig-Thurau et al., 2010; Makrides et al., 2019). Today, it is imperative that businesses use technology to promote their products or services and to encourage consumers. In this sense, social media platforms, which allow users to interact, provide businesses with opportunities such as running campaign activities, promoting their products or services, measuring activity and source of feedback. It also offers social media businesses a real-time marketing opportunity that has a huge impact on users.

REAL-TIME MARKETING AND EXAMPLES

Many firms or brands around the world try to be in the minds of consumers. Nowadays, consumers have more opportunities, products and information about products to shop. Because of this situation, consumers may be indifferent to brands because they are exposed to too many messages. However, as a result of developing information technologies, companies can interact with customers in real time, build a strong brand, or maintain their power (McKenna, 1995). Therefore, by linking their messages with public and real-time moments, brands become part of the discussions so they can be introduced by interacting with consumers (Willemsen et al., 2019). Consumers' being exposed to intense flow of information causes their attention to be reduced and temporary. For this reason, marketers focus on developing new strategies to keep consumers interested. Real-time marketing is expressed as being engaged with the audience and developing strategies in this context to realize the next thing that will attract their attention as a result of knowing the interest levels of the consumers. Real-time marketing benefits from a trending topic with instant messages. When a brand's message is interesting and can adapt to the minds of the masses, it will also allow the message to be heard voluminously. For this reason, it is stated that the most important factor in the success of real-time marketing is the relevance. Real-time marketing takes advantage of interest on a topic and direct some of it to the brand. If this marketing technique is applied correctly, brands can be easily aroused and the brand's identity and voice can be announced to more consumers at a lower cost (Kerns, 2014).

Real-time marketing requires constant interaction with targeted consumers and dynamic participation with the masses (Yoo and Gretzel, 2010). Therefore, real-time marketing that promotes instant service or experience can be defined as marketing that provides personalized products and services based on the dynamic participation of consumers in real time (Buhalis and Sinarta, 2019). It is stated that real time marketing requires the following situations (McKenna, 1995):

- Providing consumers with access to companies, their actions and feedback contributing to product development or improvement
- To gain the help and support and loyalty of customers by focusing on real-time customer satisfaction
- To learn how information technologies change both consumer behavior and marketing and to be open to new ideas

Kerns (2004) states that real-time marketing has four components and these components can be added to online marketing strategies. The real-time marketing matrix is shown in Figure 4.

In Figure 4, it is seen that real-time marketing has 4 components, planned, opportunistic, watchlist and every day. Brands should benefit from these because events are expected to take place at certain periods and times (planned) real-time marketing strategies can be created in advance, the brands are timeserver (opportunistic), the expected events are listed (watchlist) and news or events occur daily (every day). Real-time marketing can be expressed as a very important opportunity for subjects that reflect the speech and thoughts of consumers.

It is known that real-time marketing is not a new concept. However, because of the developments in information and communication technologies recently, it can be said that the concept of real-time marketing has been on the agenda as people establish communication and interaction in social media. Especially in today's digital world, brands that market by taking advantage of the agenda can take a long time in memories. By using social media tools, brands establish relationships between the topics

Figure 4. The Real-Time Marketing Matrix
Source: Kerns, 2014



on the agenda and their brands, and they can connect with their consumers. Some examples of real-time marketing from past to present are given below:

Duracell

Duracell, one of the most important brands in the world, also evaluated the agenda well when Star Wars entered the vision. He showed an example of real-time marketing with proper sharing.

In the campaign prepared by Duracell, one of the most important brands in the world, when Star Wars enters the vision, we see Darth Vader while attaching a Duracell battery to his light saber. The campaign has reached the agenda and has been very successful.

Oreo

A remarkable real-time marketing application for all marketers around the world was made by Oreo. World famous biscuit brand Oreo used the power cut in Superbowl in 2013 with its creative campaigns.

In the minutes when the stadium in the Superbowl was buried in the dark for a power outage, Oreo said, "Did the electricity go? No problem. You can also immerse your coffee in the dark." tweeted his message. It is also seen that Oreo, which does not settle for this only, shares social media posts under the country's cultures. It is stated that after the release of Oreo's Game of Thrones series final episode, the real-time work is shared within an efficient timing for the 48 hour peak phase of the hashtags associated with the series. The study included the image of the throne and the product, and the Images were used clearly and in the transmission of messages (Baran and Öymen, 2020).

Figure 5. Duracell Example
Source: www.marketingturkiye.com

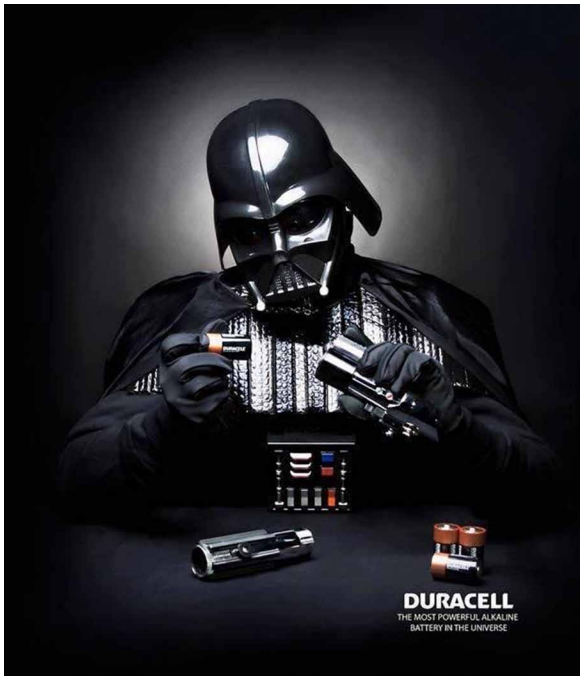
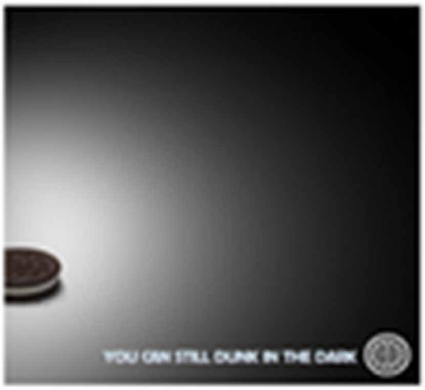


Figure 6. Oreo Example
Source: www.marketingturkiye.com, www.twitter.com





NASA

Although NASA, the largest aviation research agency in the world, is considered not to need any marketing activity, this should not interfere with their real-time marketing activities. Because marketing is a necessary and important activity for all organizations with or without profit.

Celebrating the winner humorously with a single tweet during the NASA OSCAR ceremony, the Gravity movie showed how real shooting looks from space at the 2014 Academy Awards (Maddala, 2017).

Figure 7. NASA Example
Source: Maddala, 2017



Magnum

Magnum Turkey conducted a study with 86 simultaneous real-time marketing the Oscars on Twitter.

By sharing the Oscar figurine that it placed in the ice cream package with her followers, Magnum conveyed the brand message to her followers who followed the Oscar Awards at the time.

Netflix

Covid-19 due to constraints experienced in Turkey has been removed from date of June 1, 2020. In this process, Netflix took advantage of real-time marketing opportunities by sharing on Twitter.

Turkey on 01 June 2020 with the announcement of the lifting of curfew restrictions Netflix Turkey has share twitter account. In this post, I am returning to the Snowpiercer series "my first meal outside" and to the Community series. One minute .. " had the opportunity to real-time marketing with hashtags at a convenient time. In the study, it is seen that a successful connection has been made regarding the series image and the agenda and a message has been given.

Many examples of real-time marketing applications can be given today. However, in this study, examples were tried to be given by taking into consideration the applications that are considered successful and evaluated according to the time of hashtags staying at the summit. As a result of real-time marketing network connections, it benefits from the interaction of nature of social media and its suitability to users (Willemsen et al., 2019). As a result of technological developments, it is seen that there is an interest in real-time marketing again with social media. Therefore, today brands are associated with instant times or events discussed in real time on social media. Marketing always focuses on consideration and perception. Today, it is stated that marketers live in a real-time world, but very few benefits from this situation (Kerns, 2014). Brands use technology, social media, and ongoing connectivity to encourage

organic consumer engagement and interactions to create personalized customer service together. Real-time marketing has been discussed for over 20 years, allowing brands to improve their competitiveness and market position with flexible service delivery and dynamic timing opportunities (McKenna, 1995; Rust and Oliver, 2000). However, it can be said that real-time marketing has become possible with the emergence of social media that provides dynamic interaction such as Twitter, Facebook or Instagram.

FUTURE RESEARCH DIRECTIONS

This study refers to digital globalization, digital marketing and real-time marketing because of rapid developments in information technologies. The limitation of this study is that deals with the relevant issues theoretically. Real-time marketing is especially important in today's competitive environment. However, applied and experimental studies on this subject have not been encountered in the literature. It is hoped that this study will give an idea for future experimental studies.

Figure 8. Magnum Example
Source: www.marketingturkiye.com



Figure 9. Netflix Example
Source: www.twitter.com





CONCLUSION

Digitalization has changed global economies in various ways. It can be said that globalization, which affects businesses and consumers in different ways, has many contributions such as access to new cultures, diffusion of information and technology, cost reduction and access to new markets. In particular, technological developments have significantly increased the spread of information, affecting all consumers. People use digital platforms for various reasons. Considering that nearly 4 billion people are social media users, it can be said that digital platforms are very important in the global world. Today, there are developments in digital technology such as Artificial Intelligence, Internet of Things and affects human life. E-commerce marketing activities should be developed, especially as a result of digital technologies affecting consumers' product purchases. Therefore, it is inevitable for businesses to understand the value of digital marketing with digital globalization.

In today's world, where competition has increased even more asbecause of globalization, businesses need to effectively use marketing activities to create demand for the goods and services they produce. As a result of technological developments and digitalization, the concept of digital marketing comes to the agenda. It is developing in digital marketing, especially with the development of social media and mobile technologies. Social media platforms, which enable users to interact, offer businesses opportunities such as running campaign activities, promoting their products or services, measuring activity and source of feedback. It also offers social media businesses a real-time marketing opportunity that has a huge impact on users. Real-time marketing is a marketing activity that aims to capture personal moments on a product or service by capturing the moment on the subject that is on the agenda. Real-time marketing to interact with target consumers on current issues and to keep them in mind is also considered being important to be a low-cost activity.

In this study, the concept of digital marketing, which is important for businesses in the global world, was examined and the importance of this concept was explained with examples from real-time marketing activities. Along with the technological developments, digitization has changed global economic activities considerably. Increasing interactions with mobile technologies have had a huge impact on consumers. For this reason, corporations or brands should benefit from digital marketing opportunities as effectively as possible to gain competitive advantage in today's global world. Especially by using social media opportunities, it can be said that the companies can be successful because of engaging in real-time marketing activities and performing these activities appropriately.

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KEY TERMS AND DEFINITIONS

Digital Globalization: Information technology has developed and become widespread. For this reason, it is defined as digital globalization to direct today's globalization with the flow of information provided by digital platforms.

Digital Marketing: Digital marketing is defined as achieving marketing goals using digital technologies and media. For example, using desktop computers, mobile phones, and other digital media and platforms to promote products and services.

Real-Time Marketing: It is defined as establishing relationships with the target audience and developing strategies in this context to realize the next thing that will attract the attention of consumers as a result of knowing the levels of interest of the consumers.

Chapter 12
The Economic Impact of Globalization and Internationalization on Minority Immigrant Graduates

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ABSTRACT

Globalization facilitates organizational expansion overseas and global workforce challenges. The key may be to understand which labor force characteristics increase economic efficiency. In turn, higher education institutions may need to incorporate industry's need for international interaction into strategic visions. Evidence-based research was conducted using Queens College, the City University of New York, as a case study to understand how internationalization of higher education enhanced economic success of minority immigrant graduates in the United States who were employed across industries. Primary sources included a survey of 524 alumni and group discussions with diverse undergraduates. The results discovered that the employment status and wage, of minority immigrant graduates, were positively impacted when they were exposed to globalized curriculums. This indicates that specific pre-labor market attributes increase economic success of this community and produce international scholars who transfer experiences into career skills that positively impact multinational businesses.

One day there will be no borders, no boundaries, no flags and no countries and the only passport will be the heart. ~ musician Carlos Santana

INTRODUCTION

The goal of a multinational business is to employ a well-qualified labor force to satisfy the needs of the company and maximize its profits. Therefore, one of the main tasks of all organizations is to hire

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a global workforce with specific training and experience that increase economic efficiency impact. In turn, higher education institutions may need to incorporate industries' need for international interaction into their institutional strategic visions. This study concentrates on the economic impact of a particular pre-labor market attribute (i.e. international experience) on a particular labor pool (i.e. minority immigrant graduates) using evidence-based research. The goal is to understand how higher education could enhance the economic success of minority immigrant students in the U.S. employed in a globalized business community. By identifying these pre-labor attributes of minority immigrant students, institutions could market their graduates as international scholars that transfer experiences into career skills that positively impact globalization.

According to Scheuerman (2018), globalization often refers to one or more of the following phenomena: the pursuit of classical liberal (or "free market") policies in the world economy ("economic liberalization"), the growing dominance of western (or even American) forms of political, economic, and cultural life ("westernization" or "Americanization"), a global political order built on liberal notions of international law (the "global liberal order"), the proliferation of new information technologies (the "Internet Revolution"), as well as the notion that humanity stands at the threshold of realizing one single unified community in which major sources of social conflict have vanished ("global integration"). However, globalization also delivers challenges to these traditional phenomena. For instance, the world systems theory posits that globalization widens the gap between liberal states and Third World countries and intensifies the social structure of global inequality (Wallerstein, 2004). Since globalization integrates economies and societies as well as maximizes state interests, much research has been conducted on its consequences (Fischer, 2003, Krugman, 2017 and Scheuerman, 2018). William Dudley (2017), President and CEO of the Federal Reserve Bank of New York, remarked at the Bombay Stock Exchange in Mumbai, India, that, "changes in trade can create challenges for industries that become less competitive… The answer to those challenges is not greater protectionism. Instead, we need to provide greater support to displaced workers so they can obtain the skills needed to find new well-paying jobs. We need to do better in preparing workers to deal with the challenges of globalization and technological change." This suggests that when multinational firms train employees with necessary skills or hire well-prepared workers that are culturally fluent in order to mitigate adverse effects of globalization, the economic success of the workforce and the economic efficiency of the firm could both increase. Additionally, as Krugman (2017) implies, in the past, globalization analyses focused on how growth of trade positively affected incomes of broad labor classes but failed to assist the social needs of citizens. Krugman suggests that focus should be placed on workers in particular labor markets to generate better wealth for its citizens. A study conducted by Fisman et al. (2017) claimed that cultural proximity (shared codes, beliefs, ethnicity) between lenders and borrowers increased a firm's credit and default decreased its default rate. By building on this finding, higher education institutions could educate students on the importance of intercultural competence on economic globalization.

As the number of firms conducting business throughout the world rise, the impact of international education on human capital gains importance. Pozo (2014) stated that salient returns of human capital could be obtained, by strengthening college study-abroad programs and international education. For higher education institutions to build on this phenomenon that labor markets reward international education, universities need to understand the effects of internationalization. According to the National Association of Foreign Student Advisers, internationalization is defined as "the conscious effort to integrate and infuse international, intercultural, and global dimensions into the ethos and outcomes of postsecondary education" (Hudzik, 2015: 1). While research has been done to show the positive benefits of internation-

alization for educational institutions such as commercial advantage, knowledge and language acquisition, and curriculum enhancement (Altbach and Knight, 2007), it is of concern to understand which type of international skills are sought by employers and which demographic labor force is affected. Therefore, this study aims to indicate how internationalization of higher education positively impacts multinational businesses and enhances economic success of immigrant graduates in the United States.

This study refers to *diversity* in terms of race and ethnicity in the United States of America, where the term *minority* refers to a person who is Black (not of Hispanic origin), Hispanic, Asian or Pacific Islander or American Indian or Alaskan Native (Civil Rights Act, 1964). The term *immigrant* refers to a person who is foreign-born or has at least one parent who is foreign-born (U.S. Census Bureau, 2016).

Queens College (QC), a college in the City University of New York, was chosen as a case study for this research. QC is a four-year public college in a New York City borough with an undergraduate population of over 19,000 students (Queens, 2015). QC is one of the colleges in the U.S., which is home to ethnically diverse students. With more than half of students born overseas in 170 countries and many first-generation students, QC hosts students with different cultural and social backgrounds (Queens, 2015). Therefore, in this research, alumni of QC were selected as a sample to discuss immigrant experience, internationalization, and economic success post-graduation.

BACKGROUND

With human capital theory (Vaizey, 1962: 165), society can understand if certain pre-labor market attributes, such as international experience and ethnic background, affect economic success across individuals. The intent of this theory-driven paper is to refine the human capital theory in order to understand how internationalization affects economic success, specifically, for minority immigrant graduates.

Various researchers have analyzed the relationship between internationalization and success: how varied international activities expose the firm to richer experiences (Casillas and Moreno-Menéndez, 2013) and how human resource professionals recognize global talent management as a competitive advantage to sustain multinational enterprises (Tarique and Schuler, 2010). Liwiński (2017) found that, although some employers treat students' participation in international exchange programs as a signaling tool indicating above-average cognitive and non-cognitive skills, there was a positive correlation between studying abroad and economic activity after graduation. In a 2017 report conducted by S&P Global Platts, the world's top 25 energy companies were located outside the U.S. (S&P, 2017) which could indicate a necessity for employees who are culturally fluent. Although, not all employers considered international experience as beneficial, the QS Global Employer Survey Report stated that candidates with international experience generally outperformed those without (Molony et al., 2018).

According to a publication by McKinsey & Co., companies in the top quartile for racial and ethnic diversity were 35% more likely to have financial returns higher than their respective national industry medians (Hunt, 2015). Conventional wisdom suggests that when every company executes the same business strategy, their output tends to be identical, therefore making profitability more difficult to achieve. Thus, a diverse workforce can lead to increased market share, creativity, and innovation (Konrad, 2003). According to the National Venture Capital Association (2013), immigrants have established 25% (88 out of 356) public U.S. companies in the last 20 years (such as Google, eBay, Yahoo). Almost 17% of all new business owners in the U.S. are first generation immigrants, comprising of only 12% of the U.S. population (Bellows, 2011). The Partnership for a New American Economy (2012) found that 75% of

patents issued to the top ten patent-producing universities are foreign-born inventors. Since the case study for this paper was conducted in New York city, similar studies were found on New York minority immigrants. According to New York State Comptroller, Thomas P. DiNapoli, in 2013, immigrants accounted for $257 billion in economic activity in New York city, nearly a third of the total gross product of the entire city (DiNapoli and Bleiwas, 2015). The New York City Planning Office stated that 47% of all employed residents across all major industries were immigrants and most who started new businesses were immigrants (Lobo and Salvo, 2013).

Although much has been written about the academic and socio-cultural impact of internationalization (Hudzik, 2015, Casillas & Moreno-Menéndez, 2013 and Altbach & Knight, 2007) and the economic impact of immigrants on US economy (DiNapoli & Bleiwas, 2016 and Bellows, 2001), little research has been conducted on the economic impact of global dimensions in education (Liwiński, 2017). This research aims to fill the lacuna in the literature by analyzing the effect of internationalization on the economic output of immigrant graduates in US. Thus, the nexus between immigrant background and international experience will be discussed in-depth, which positively influences economic success.

METHODOLOGY

Through an online survey, data was collected on the economic effects (dependent variable) of internationalization (independent variable) specifically on minority immigrant alumni (independent variable). It was assumed that the mediator variables (those that explained the relationship between economic effects and internationalization) and the moderator variables (those that influenced the strength of the relationship between economic effects and internationalization) could be innovation, adventure-seeking, etc.

A regression analysis was selected for this study. Current employment status, exposure to any international activity alongside the Graduate Study, demographic information, location, sector, wages, former work experience, were asked of the participants. Further, a positivistic case study research approach was also applied to this study by using discussion groups and written statements in the survey. According to Myers, this method of qualitative research contributes to the rigor and relevance of an investigation and explains why people act in a certain way (Myers, 2013).

Sample

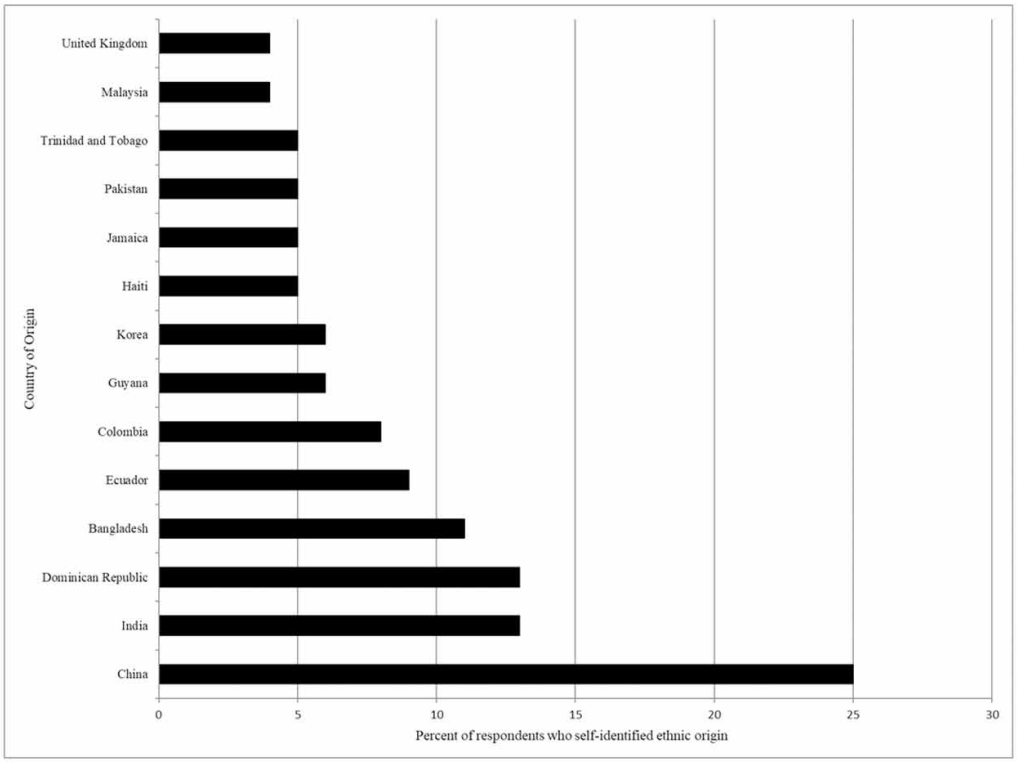
The data for this study comprised of two primary sources: a survey for alumni of QC and a discussion forum of students. Students and alumni were the units of analysis. The field for this research was the campus of Queens College in New York.

Primary Source #1

The online survey was designed for alumni of Queens College from the last twenty years (1995-2016) with the assumption that years prior to 1995 had limited international opportunities. According to the Office of Institutional Research at QC, there were 25,800 alums in the last twenty years with no known information for the number of foreign-born alumni or minority immigrant alumni that graduated since 1995. Respondents self-identified as minority immigrant graduates and included all ethnicities in order to compare experiences. With a population size of 25,800 alumns, a margin of error of $\pm 5\%$ and confidence

level of 95%, the resulting randomly selected sample consisted of 524 cases (which met the minimum requirement of 379 cases), out of which 105 respondents answered the survey questions with written statements. Alumni were asked specific demographic questions, their-international learning experience during their college years, their career choices after graduation, and whether their-international learning experience mattered post-graduation or not. Figure 1 illustrates that the percent of respondents who self-identified their country of origin were predominantly Asian.

Figure 1. Respondent demographics (Country of Origin)



Appendix 1 provides detailed results of alumni respondent characteristics. Since the sample indicated that 37.68% of respondents were either a foreign-born immigrant or had at least one parent born in another country, these respondents were compared to non-immigrant alumni in the sample. Out of all the respondents, about 50% of them were between the ages of 25 to 34 years. As with most surveys, the majority of alumni who responded were female. Out of all the respondents, about 60% were single and about 31% were married. The majority of alumni were employed (61.45%) while some others were employed part-time (16.03%), full-time students (9.16%), unemployed (5.92%), self-employed (3.63%), caring for family full-time (1.53%), unemployed and not looking for work (1.15%), retired (0.95%) or in the military (0.19%). The majority of participants that were in the work force, who were employed after graduation, studied either Humanities (38.93%) or Educational services (27.1%). Health care and social assistance (15.46%), and Professional, scientific and technical services (10.11%) were the other

programs from which participants of this study graduated. Alumni of QC resided all over the world, but the vast majority stayed in the New York City region specifically in the borough of Queens.

Primary Source #2

A campus-wide email was sent to QC undergraduates. Fifteen male and fifteen female students, who self-identified as immigrants, were selected. Two separate forums were conducted with students of different cultural backgrounds. At the forums, students discussed their ethnicities, the kinds of experiences and attitudes immigrant students like them brought to QC, the choices they made about international learning during their college careers, and whether they thought that being exposed to international learning opportunities really mattered after graduation, affected their career choices or led to greater success in the workplace. The discussions included open-ended questions that were audio-recorded and transcribed in order to collect data on the positive relationship between-international experience and economic success.

DATA ANALYSIS

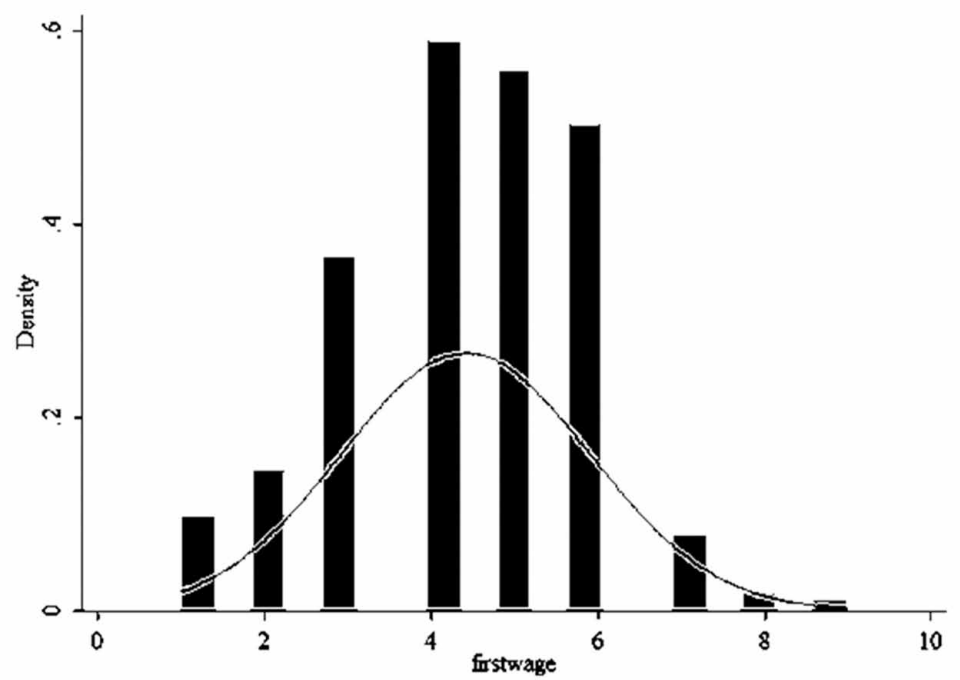
Due the ambiguity of the term "internationalization", it is necessary to define several activities in and out of campus that are considered international. Figure 2 outlines the international (exposure) activities that were stated in the survey and discussion forums. For example, if oceanography students studied seismic risk in Bangladesh, then this would be an international exposure activity (*covered global issues in the classroom*). If statistics students collaborated with students at a university in Barcelona through an organized platform, then this would be an international exposure activity (*made connections with institutions, professionals or students in other countries*). This led to a clear emergence on the type of international activity that was most beneficial to minority immigrant students and alumni.

Figure 2. International Exposure activities

International Exposure Activity
Covered global issues in the classroom
Participated in Study Abroad
Made connections with institutions, professionals or students in other countries (through a campus program)
Worked with local organizations with ties to an international community
Participated in academic programs with international componenets, such as language and cultural literacy
Formed a friendship with at least one international student (i.e. a temporary U.S. resident)
Engaged in an international internship or service learning opportunity abroad
Attended at least two campus events that promoted understanding of different world cultures

Respondents were asked about their field of study at QC, current job description, current employment status, wages (former job and current job), time spent on first job search, current role in industry, current level of job satisfaction, current industry, and major in college. Appendix 1 provides detailed results of alumni responses, i.e. graduates of QC from 1995-2016. The highest two bars in Figure 3 represent $30,000 - $39,999 and $40,000 - $49,999, the distribution of wages for the first job of immigrant and non-immigrant graduates. Figure 4 shows the distribution of current wage of immigrant and non-immigrant graduates with the highest bar representing $50,000 - $74,999. The quantitative data was analyzed using descriptive and inferential statistics.

Figure 3. Distribution of Wages for first job after graduation from QC
(graduates from 1995-2016)



Written statements from the alumni survey and group discussions were transcribed, and open coding was used to systematically code each paragraph in which ethnicity, career, and international experience were discussed. There were a few key commonalities found as a result of this process of analysis. Figure 5 explains the organization of textual data that was collected on alumni survey responses and student group discussions. In the discussions, studying abroad had an important impact on selection of a major and/or future course of study, resume and employability, ability of a foreign language, business knowledge compared to peers, and ease of discussing minority immigrant issues. Appendix 2 indicates the significance of study abroad in the Finance industry. Although the discussion group participants consistently talked about Study Abroad being the most beneficial international experience for students, the written statements in the survey placed more significance on global learning on campus once Study Abroad was not an option. **This was the first sign that global learning on campus should be addressed.** The

research also found that immigrant students did not have similar opportunities for international exposure as those who were not immigrants. With alumni, the most common reason for not having studied abroad during their college years was a lack of awareness of such an opportunity at Queens College (42.3%), followed by family responsibilities that prevented them from leaving New York City for an extended period of time (25.8%). Figure 6 shows the survey results for international exposure effect on careers based on the international activities indicated in the survey. It was discovered that, out of those who participated in some international exposure activity during their college years, almost 42% indicated that the activity helped or should help in their career.

Figure 4. Distribution of Wages for current job (graduates from 1995-2016)

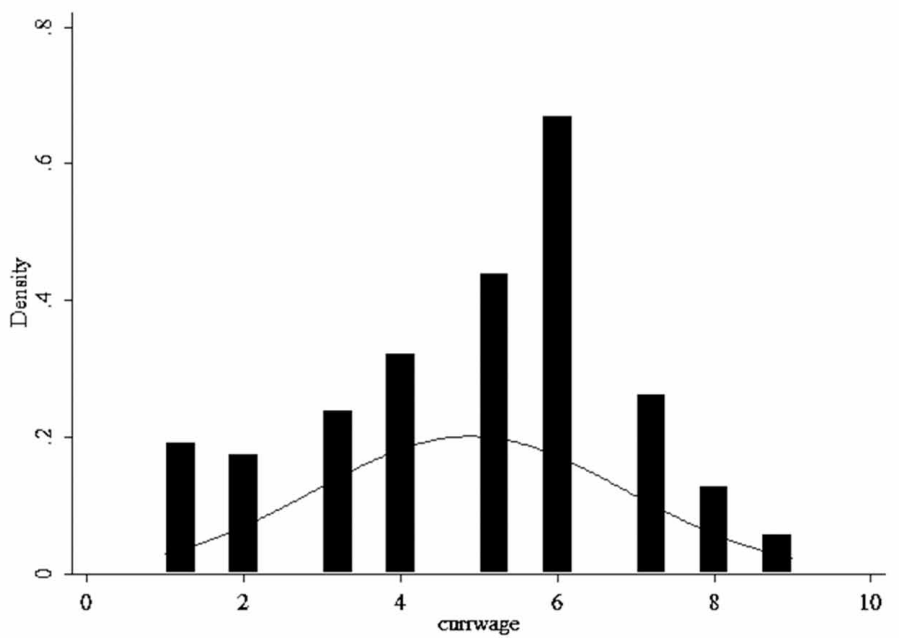
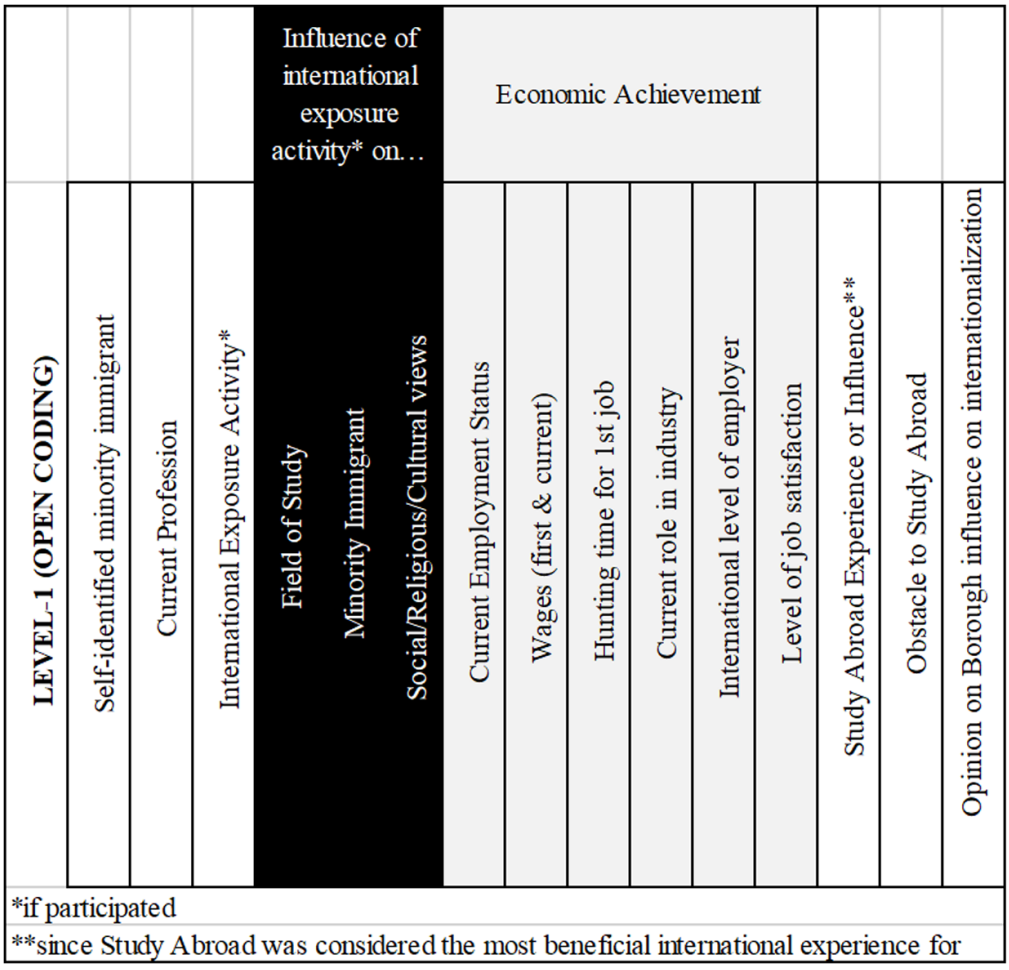


Figure 7 provides some quotes from the alumni survey responses regarding the type and benefit of international experience. The quotes indicate that some international activity increased global/inter-cultural fluency, one of the necessary career readiness competencies sought by employers according to the National Association of Colleges and Employers (NACE), the leading source of information on the employment of U.S. college graduates (NACE, 2018).

Finally, the results of Level-1 (open coding) was consolidated into simpler coding that ended with a summary narrative. This displayed the data in a compressed form (Myers, 2013). This higher-level axial coding (Level-2) allowed clearer concepts and themes to emerge (see Results and Findings). Throughout the process, the study looked for patterns to check whether the quantitative analysis complemented this inductive reasoning approach.

Figure 5. Level-1 (open-coding): Textual data based on survey responses and group discussions



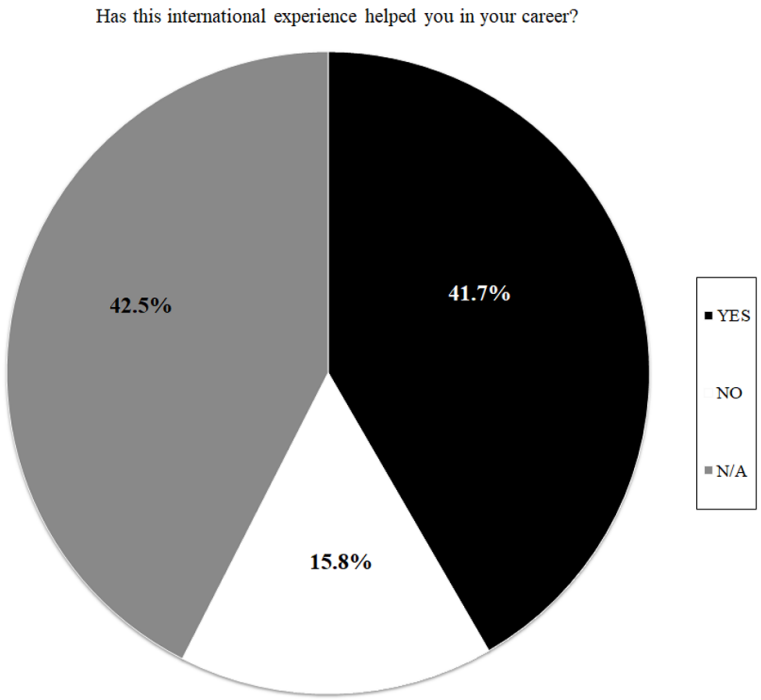
RESULTS AND FINDINGS

Study 1: Quantitative Study

According to the survey, when respondents were asked if they participated in international activities while at QC, they indicated that, out of all international exposure opportunities, covering global issues in the classroom were most important toward career success, other than studying abroad. Although studying abroad may be one of the most valuable educational experiences for a student, 74% of the sample did not study abroad. Also, studying abroad may have left out a certain group of graduates who may not afford such a luxury, so global learning on campus may be the next best thing. The survey asked respondents if they participated in any international exposure activities while at QC, and if they did, then they were asked to indicate the level of importance towards career success. The responses are shown in Table 1. According to the results, out of all international exposure opportunities, 19% of alumni rated covering global issues in the classroom as most important toward career success. **This was the second indication**

that global learning on campus should be addressed. Therefore, this research did not focus on studying abroad as the most important international activity in one's career development. Comparatively, 17.5% of alumni stated that attending events on campus that promoted different cultures, 17.3% of alumni stated that international relationships in college (formed through a friendship with an international student), and 14.7% of alumni stated that participation in academic programs (established through international components in courses or learning opportunities) were important, all leading to successful professional partnerships. Once again, global/intercultural fluency emerged as one of the career readiness competencies gained. During the group discussions, students discussed that certain majors with international exposure helped when working with diverse populations and colleagues from other countries.

Figure 6. Survey responses for international exposure effect on careers



The alumni responses were regressed against every international exposure variable (listed in Figure 2) to analyze the economic effects of internationalization specifically on minority alumni. When alumni respondents were asked about their field of study, current employment status, wages, first job wage (deflated by Consumer Price Index), current job wage, hunting time for the first job, current role in industry, level of satisfaction, and the effect of international exposure on their career, **findings indicated that employment status and wage were positively influenced by a globalized curriculum for minority immigrant alumni, ceteris paribus.** Tables 2 shows that when alumni's current employment status was regressed against international exposure variables along with Graduate Study, demographic variables, location, industry and field of study, findings supported the indication that global learning on campus should be addressed. Holding other variables (including potential experience) fixed, covering global is-

Figure 7. Survey responses illustrating type and benefit of international experience

Type of International Experience	Benefit of international experience	Participant
Volunteered with international group	"It helped broaden my understanding of other minorities."	Application Developer, Milwaukee, MI
Covered global issues in classroom	"As immigrants we already had more knowledge than local Americans."	Hospital Administrator, Queens County, NY
Study Abroad	"I ended up getting a Masters in Global Affairs."	PhD Candidate, New York, NY
Study Abroad	"Enlarged my netwrok, greater understanding of other cultures."	Compliance Analyst, Bridgewater, NJ
International internship	"I developed or complemented my ability to write, speak or understand a foreign language. This helped me secure a job in the field I was looking."	Professor of Psychology, New York, NY
Covered global issues in classroom	"QC should partner with the diversity departments of corporations for global and diversity inclusion."	Human Resources Manager, Wooster, OH
Participated in academic program	"In order to be successful in the current job market, one needs to understand other cultures and customs."	Accountant, Minas Gerais, Brazil
Covered global issues in classroom	"Companies need to know that graduates know about international issues so universities should place it as a top priority in each department."	Federal Government Employee, Boston, MA
Covered global issues in classroom	"To be successfully compete in the job market, even 10 years from now, we need to understand different cultures and customs."	Retired Business Executive, Las Vegas, NV

sues in class increased the probability of minority alumni being full-time employed by 69.3% at the 10% significance level. The difference with the full sample was about 0.4 standard deviations lower. Also, having global issues covered in class showed a positive correlation with full-time employment rate of the respondents ($r = 0.7368$) which indicated that alumni had a better full-time employment rate when classes covered global issues. When the effect of international exposure on the first job wage of respondents (deflated by the Consumer Price Index) was studied, holding all other variables fixed, covering global issues in class increased the first job wage of minority alumni by 11.49% at the 5% significance level. This is illustrated in Table 3. Data consisted of those who got their first full-time job during or after studying at Queens College. Using the entire sample, when holding other variables fixed, people who were white earned 10.07% more than those who were not. Table 4 shows the effect of international exposure on current wage of respondents. When holding other variables fixed, covering global issues in class increased wages of minority alumni by 15.14% at the 1% significance level (about 0.54 standard

deviations higher than the effect in the entire sample). Furthermore, one more year of experience increased wage by 1.9% at the 1% significance level. Table 5 indicates the results of the regression between the categorical hunting time variable on international exposure variables, along with Graduate Study, several demographic variables, location and field of study. Data was used from those alumni who got their first full time job during or after studying at Queens College. Holding other variables fixed, having engaged in an international internship or service-learning opportunity abroad decreased the probability of finding the first job in more than 3 months by 23.51% at the 5% significance level (i.e. decreased the time it took to find a job within 3 months). The difference with the entire sample was about 0.98 standard deviations higher. Study Abroad, on its own, decreased the probability of finding the first job in more than 3 months by 24.96% at the 5% significance level. Appendix 3 provides results of the multiple regression analysis on all variables used in the study.

Table 1. Level of importance of international exposure activity towards career success

International Exposure	Level of Importance*	Relative Importance
Covered global issues in the classroom	188	19%
Participated in Study Abroad	50	5%
Made connections with institutions, professionals or students in other countries (through a campus program)	124	12.50%
Worked with local organizations with ties to an international community	90	9.10%
Participated in academic programs with international components, such as language and cultural literacy	145	14.70%
Formed a friendship with at least one international student (i.e. a temporary U.S. resident)	171	17.30%
Engaged in an international internship or service learning opportunity abroad	48	4.90%
Attended at least two campus events that promoted understanding of different world cultures	173	17.50%
Total	**989**	**100%**

(*measured by numbers of "very important")

Table 2. Employment and International Exposure

Dependent Variable	Employment probability	
Graduate Study	0.0877	**
	-0.037	
Global Issues	0.0693	*
	-0.042	
*denotes significance at the 10% level, **at the 5% level, and *** at the 1% level		
The base region is Northeast		
The base field is STEM		

Table 3. First Wage and International Exposure

Dependent Variable	Log real first wage	
White	0.1007	**
	-0.043	
Global Issues	0.1149	**
	-0.051	
*denotes significance at the 10% level, **at the 5% level, and *** at the 1% level		
The base region is Northeast		
The base field is STEM		
Log-Level Regression: $\%\Delta y = 100\ (e^{\beta 1} - 1)$		

Table 4. Current Wage and International Exposure

Dependent Variable	Log current wage	
Current Experience	0.0197	***
	-0.004	
Global Issues	0.1514	***
	-0.054	
*denotes significance at the 10% level, **at the 5% level, and *** at the 1% level		
The base region is Northeast		
The base field is STEM		
Log-Level Regression: $\%\Delta y = 100\ (e^{\beta 1} - 1)$		

Table 5. Job Hunting and International Exposure

Dependent Variable	Probability of finding the first job in 3 months or less	
Study abroad	-0.2496	***
	-0.095	
Internship abroad	-0.2351	**
	-0.098	

Study 2: Qualitative Study

After Level-1 was completed, Level-2 tracked perceived economic success. The prevalent opinion across all groups was that, aside from Study Abroad, global learning on campus influenced economic achievement. Figure 8 illustrates how alumni survey respondents and group discussion participants viewed global learning on campus. The results provided overwhelming evidence that minority immigrant students had many perceived, positive benefits with substantive internationalized experience at QC. The key experience that seemed to be most influential for future career success was **a course that infused global content in its curriculum** (such as global trends, projects or study of cultures).

Discussions at the forums indicated that when course material was related to global issues, not only did minority immigrant students feel connected and subsequently motivated to excel, but also felt a respect for differences with this inclusivity of cultural understanding. Although many students were born in the US and were first-generation, they self-identified as immigrants, lived in immigrant communities,

and were not gaining intercultural experience that could help them learn or help them become qualified for a future job just because they were sitting next to someone from somewhere else. They needed a structured globalized curriculum. The alumni written statements strengthened this interpretation with the opinion that New York wouldn't be the global cultural, economic and political powerhouse it was without a diverse group of people and ideas.

Figure 8. Level 2 (coding): View on global learning on campus

Global learning on campus
Completed a course that infused global content in the curriculum (such as global trends, projects or cultures)
Collaborated with an institution/service organiation/professor/students overseas (for field study, research, etc.)
Participated in a language/cultural literacy academic program
Worked or volunteered with a local service organization or community group with ties to international community
Participated in a campus program that promotes cultural differences (such as buddy program, language partnership, socials, etc.)
Formed a friendship with an international student

FUTURE RESEARCH DIRECTIONS

As higher education institutions educate and engage students on global issues (Fondo & Withanachchi, 2019), businesses could invest in diverse campus programs that encourage global thinking, increase virtual access to large scale projects, integrate corporate citizenship into curricula (Wood, Davenport, Blockson and Van Buren III, 2002), employ natural abilities of minority immigrant graduates, build international work-integrated learning opportunities, instigate university partnerships, etc. Although this conceptual model has many limitations, it can inspire quantitative scholars to develop measures to examine relationships (such as the economic effects of immigrants on host societies) or develop a psychological study.

Additionally, this data could be benchmarked against other similar universities to better understand which factors concretely tribute to an internationally qualified labor force. One possible instrument that could be used is the National Survey of Student Engagement (NSSE), used by colleges to collect information from first year and senior students about the characteristics and quality of undergraduate experience. Although Queens College ceased participation in 2014, the NSSE data are used by many stakeholders such as faculty, administrators, researchers, and business recruits (Queens, 2014). By comparing QC to other mid-east colleges and similar institutions using the Global Learning module assessment in the NSSE (Queens, 2014), to specifically assesses student experiences and coursework that emphasize global affairs, world cultures, nationalities, religions, and other international topics, a better valuation of impact could be discovered.

Finally, as the data was being collected and analyzed, it was found that a standard measure was required. Higher education institutions could benefit from an "international exposure score" to truly publicize the success of diversifying internationalization beyond campus.

CONCLUSION

The key finding confirmed the human capital theory that a pre-labor market attribute, such as an internationalized experience (specifically a globalized curriculum), positively influenced economic success for minority immigrant alumni (most significantly through employment status and wage). The hypothesis of this research was to examine whether international experience led to economic success or not. This triangulation method of analyzing the hypothesis established in the quantitative research through multiple perspectives in discussions and survey established validity (Yin, 2014). The insight that emerged from the qualitative study (but was not discovered in the quantitative study) was how the benefits of being an immigrant, combined with global learning on campus, positively influenced economic success. This part of society was most resourceful, diligent, bilingual, and agile in adapting to different cultures which were key talents for multinational corporations. By transforming positive characteristics and linguistic talents into career skills, these students could be showcased as global learners. Another aspect of global learning on campus could be to study at home by studying in diverse communities in the U.S. (such as immigrant neighborhoods or federally-designated refugee settlement cities so that students could learn to see their own country through the eyes of minority immigrant groups or intercultural experiences in Puerto Rico or a Navajo reservation). Through workshops that develop the idea that global experiences positively influences success, through scholars or mentoring programs that pair special cohorts of first or second generation students studying abroad, and through diversity ambassadors who are responsible for intercultural events on campus, institutions can distribute more resources and more policies to enhance campus-wide participation in the work of internationalization. This study could be significant to the higher education community as the commitment to providing globalized learning experiences increases nationally and internationally. By identifying these pre-labor attributes of minority immigrant students, institutions could market their graduates as international scholars that transfer experiences into career skills that mitigate adverse effects of globalization and increase economic success of the workforce and the economic efficiency of the firm.

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APPENDIX

Tables 6-9 show detailed alumni respondent characteristics.

Table 6. Current employment status of respondents

Current Employment Status	Count	Percent
A full-time student	48	9.16%
Caring for family full-time	8	1.53%
Employed full-time (35 hours per week or more)	322	61.45%
Employed part-time (less than 35 hours per week)	84	16.03%
In the Military	1	0.19%
Retired	5	0.95%
Self-employed	19	3.63%
Unemployed and looking for work	31	5.92%
Unemployed but not currently looking for work	6	1.15%

Table 7. Field of study of respondents

Field of Study	Count	Percentage
Humanities	204	38.93
Health and Pre-professional	147	28.05
Business	94	17.94
STEM	74	14.12
Interdisciplinary (Other)	5	0.95
Total	524	100

Table 8. First generation respondents

First Generation	Count	Percentage
No. I am a second generation immigrant.	60	43.48
No. I am not a first generation or second generation immigrant.	26	18.84
Yes. I was born in another country and I am a first generation immigrant.	52	37.68
Total	138	100

Table 9. Current industry of respondents

Industry	Frequency	Percent
Accommodation and food services	7	1.34
Administrative and support and waste managaement and remediation services (such as office administration, clerical, security, waste disposal)	20	3.82
Arts, entertainment, and recreation	23	4.39
Construction	4	0.76
Educational services	142	27.1
Federal, State, and Local Government (excluding state/local schools and hospitals) and the U.S. Postal Service	34	6.49
Finance and insurance	33	6.3
Health care and social assistance	81	15.46
Information (such as broadcasting, publishing, Internet)	11	2.1
Management of companies and enterprises (such as administer, oversee, and manage establishments)	9	1.72
Manufacturing	5	0.95
Other services (such as as repair, maintenance, laundry, personal, religious, social, private household)	6	1.15
Professional, scientific, and technical services (such as legal, accounting, architecture, engineering, short-term contractor, consultant, computer, advertising, scientific research, veterinary)	53	10.11
Real estate and rental and leasing	9	1.72
Retail trade (such as pharmaceuticals, store retailers, non-store retailers)	13	2.48
Transportation and warehousing	6	1.15
Utilities	1	0.19
Wholesale trade	5	0.95
Retired	5	0.95
Unemployed*	57	10.88
Total	524	100

*Note that the 11% who were unemployed could be recently graduates

The Significance of Study Abroad in the Finance Industry

Table 10.

Dependent Variable	Finance
Graduate Study	-0.0087
	-0.032
Current Experience	0.0036
	-0.003
Age	-0.0001
	-0.002
Female	-0.0689 **
	-0.03
White	0.0125
	-0.032
Immigrant	0.0253
	-0.044
Married	-0.0372
	-0.036
West	0.01
	-0.078
Major in Humanities	-0.0933 *
	-0.052
Major in Business	-0.0797
	-0.056
Global Issues	0.0593
	-0.042
Study abroad	0.1835 ***
	-0.057
Connections	-0.0876 *
	-0.051
Organizations with Ties	0.0044
	-0.046
Programs with components	-0.0217
	-0.045
Friendship	-0.0222
	-0.037
Internship abroad	-0.013
	-0.051
Events	-0.0252
	-0.038
*denotes significance at the 10% level, **at the 5% level, and *** at the 1% level	
The base region is Northeast	
The base field is STEM	

Table 11.

Dependent Variable	Employment probability	
Graduate Study	0.0877	**
	-0.037	
Age	0.0024	
	-0.002	
Female	-0.0072	
	-0.032	
White	-0.0071	
	-0.035	
Immigrant	0.005	
	-0.042	
Married	-0.0467	
	-0.037	
Southeast	-0.107	
	-0.101	
Southwest	-0.1284	
	-0.124	
West	-0.0495	
	-0.084	
Major in Humanities	-0.1222	***
	-0.034	
Major in Business	predicts success perfectly	
Global Issues	0.0693	*
	-0.042	
*denotes significance at the 10% level, **at the 5% level, and *** at the 1% level		
The base region is Northeast		
The base field is STEM		

Effect of International Exposure on Employment, Wages (First and Current), and Job-hunting Time

Table 12.

Dependent Variable	Log real first wage		Log current wage	
Graduate Study	0.1971	***	0.2005	***
	-0.044		-0.048	
Current Experience			0.0197	***
			-0.004	
Age at the time	-0.0014		0	
	-0.003		-0.003	
Female	-0.1391	***	-0.1201	***
	-0.045		-0.048	
White	0.1007	**	0.0355	
	-0.043		-0.048	
Immigrant	0.0519		-0.0366	
	-0.055		-0.058	
Married	0.0668		0.0155	
	-0.045		-0.046	
Southeast	-0.0219		-0.0415	
	-0.152		-0.17	
Southwest	-0.1095		-0.2777	
	-0.23		-0.349	
West	-0.2106	**	0.1412	
	-0.106		-0.126	
Foreign	-0.9114	***	-0.7295	***
	-0.203		-0.182	
Major in Humanities	-0.1125	*	-0.1483	**
	-0.061		-0.064	
Major in Business	-0.0879		-0.2426	***
	-0.065		-0.068	
Global Issues	0.1149	**	0.1514	***
	-0.051		-0.054	
Study abroad	0.024		0.003	
	-0.072		-0.078	
Connections	0.031		-0.0328	
	-0.051		-0.054	
Organizations with Ties	-0.0177		-0.0441	
	-0.054		-0.059	
Programs with components	-0.0118		-0.061	
	-0.052		-0.055	
Friendship	-0.0696		-0.0913	*
	-0.047		-0.051	
Internship abroad	-0.0322		0.0066	
	-0.069		-0.077	
Events	0.0087		-0.0062	
	-0.047		-0.05	
*denotes significance at the 10% level, **at the 5% level, and *** at the 1% level				
The base region is Northeast				
The base field is STEM				

Table 13.

Dependent Variable	Probability of finding the first job in 3 months or less	
Graduate Study	-0.0656	
	-0.057	
Age at graduation	0.0063	*
	-0.004	
Female	0.1528	***
	-0.054	
White	0.0332	
	-0.057	
Immigrant	-0.0397	
	-0.076	
Married	-0.1112	*
	-0.062	
Southeast	-0.0146	
	-0.182	
Southwest	-0.162	
	-0.244	
West	-0.0054	
	-0.142	
Foreign	-0.152	
	-0.229	
Major in Humanities	0.0692	
	-0.08	
Major in Business	0.0271	
	-0.086	
Global Issues	-0.0485	
	-0.068	
Study abroad	-0.2496	***
	-0.095	
Connections	0.0089	
	-0.07	
Organizations with Ties	0.0409	
	-0.076	
Programs with components	0.0183	
	-0.071	
Friendship	0.0845	
	-0.063	
Internship aboard	0.2351	**
	-0.098	
Events	-0.0682	
	-0.064	
*denotes significance at the 10% level, **at the 5% level, and *** at the 1% level		
The base region is Northeast		
The base field is STEM		

Chapter 13
Financial Globalization and the Development of China's Economy

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ABSTRACT

Since the outbreak of COVID-19, the official Brexit and the trade friction between Sino-US, anti-globalization become the focus of the world. After 40 years of reform and opening up, China's economy is facing new challenges under the new world situation. This chapter mainly focuses on how to promote China's economic growth under the background of financial globalization. Firstly, this chapter will introduce the development trend of the globalization and analyze the relation between financial globalization and economic growth. Secondly, this chapter will examine the state quo of China's financial openness and compare the change of China's de jure financial openness with the change of China's de facto financial openness. At last, this chapter will expound challenges faced by China's economy and put forward possible solutions to these challenges in terms of financial globalization.

INTRODUCTION

At present, China's economy seems to have entered a painful period of adjustment. On the one hand, under the pressure of rising labor cost and resource cost, the low-end manufacturing industries have been transferred from China to other emerging developing countries such as Vietnam, Myanmar, India, Indonesia. On the other hand, under the pressure of "anti-globalization", parts of the high-end manufacturing industries are flowing back to some developed countries such as Europe and America under their "re-industrialization" strategy. China's economy is facing double pressures from developed countries and other developing countries.

From the perspective of marginal benefit and marginal cost, this chapter will analyze that only under specific social basic conditions, the marginal benefit of financial opening is greater than the marginal cost, namely, only when a country's social basic conditions reach a certain level, financial globalization

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can promote its economic growth. That is the threshold point between financial globalization and social basic conditions. Financial globalization can bring direct benefit and indirect benefit for a country, but all benefit is interacted with social basic conditions. The social basic conditions of a country can determine the absorptive capacity for all benefit brought by financial globalization. Therefore, in order to seize the opportunity of financial globalization to develop economy, China must improve the current social basic conditions, namely establish a financial system matching the real economy, create a good business environment, and internationalize the governance capability.

BACKGROUND

In academic research, the impact of financial integration on economic growth can be roughly divided into three categories: promotion theory, conditional theory, and irrelevant theory.

Bekaert, Harvey and Lundblad (2003) believe that the integration of equity markets is conducive to reduce the cost of capital, so it makes sense that a lower cost of capital is associated with increased investment and better prospects for GDP growth. Quinn (1997) finds that financial opening can promote the efficiency of capital allocation. So, it is robustly and positively associated with economic growth. Vanassche (2004) concludes that financial integration not only enhances growth of industries, but also promote the development of the domestic financial system.

Edwards (2001) finds that financial opening can inhibit the economic growth of poor countries but promote the economic growth of developed countries. Edison et al. (2004) believe that capital account openness and stock market liberalization are in favor for economic growth in middle-income countries, not for economic growth in poorer or richer countries. So, they think financial integration is conditional for economic growth.

Different from the above viewpoints, Kraay (1998), Rodrik (1998), and Durham (2004) do not find relevant or causal link between financial integration and economic growth.

In recent years, studies of the effect of financial integration on economic growth can be found in the works of Ghazouani (2019), Md Saifur and Farihana (2019), Fabio et al (2019), Inekwe and Valenzuela (2020), but all these studies concentrate on the impact of financial integration on one aspect of the economy, not on the overall economy. Although Taghizadeh-Hesary et al (2019) and Muazu (2020) have noted threshold effect of financial integration, but they explain it from the empirical analysis, not from theoretical analysis.

On the basis of these researches, this chapter points out that there are cost in financial opening, and the different impacts of financial opening on economic growth are caused by the different cost of itself. From the perspective of marginal benefit and marginal cost, this chapter analyzes that only under the specific social basic conditions, the marginal benefit of financial opening is greater than the marginal cost. But different countries have different social basic conditions at different periods, so the cost of participating in financial globalization is different too. Researchers choose different countries and periods as samples, so they will get different conclusions. That is the reason why scholars form different views before.

MAIN FOCUS OF THE CHAPTER

The Development Trend of Globalization

Globalization has led considerable institutional, economic, social, cultural, and political changes in the world. But, in recent years, there are many doubts about it. Recently,some scholars have said,the outbreak of covid-19 is the last straw in the process of globalization, with the official Brexit and the trade friction between Sino-US. After the financial crisis in 2008, anti-globalization concerns began to appear, but it is basically on the edge. However, after Trump came into power in 2016, anti-globalization became more and more common. With the pandemic spreading through the whole world, it has become the focus of global attention now. The impact of the pandemic on the global supply chain is undoubtedly tremendous, which forces many countries to re-examine the current global supply chain, so as to pay more attention to local suppliers. The shortage of facial masks, ventilators, and other medical protection materials make some developed countries have a clearer understanding of the consequences of diminishing manufacturing industry.

Will the anti-globalization concerns disappear after the pandemic, or will globalization really enter the turning point of the historical cycle? To answer this question, it needs to look at historical laws of globalization firstly. Chandy and Seidel (2016) have discussed the globalization trend and analyze the process of globalization from 1870 to 2015 using a lot of data. They conclude that globalization process is not very smooth, it has gone through the great depression and two world wars. Although there have been twists and turns, globalization show a rising trend in general. As globalization continues, the composition of globalized stocks and flows also evolves. It shifts from goods to services in trade, from debt to FDI and portfolio equity in foreign capital.

Since the 1980s, with the progress of technology and the integration of trade among countries, the international liquidity of all the global has been expanding, it has increased from 409395.44 million dollars in 1980 to 12203460.06 million dollars in 2019(Figure 1). At the same time, in order to cope with the increasing global competition in the financial sector, more and more banks and other financial institutions establish branches to expand their business scales as their strategic choice. The number of commercial bank branches owned by per 100000 adults across the world is increased from 9.79 in 2004 to 11.5 in 2018(Figure 2). The expanding of international liquidity of all the global and financial institutions across the world proclaim that the era of financial globalization has come.

Now, globalization has experienced trade globalization, production globalization, and enters the third stage, financial globalization. Financial globalization is the development trend of globalization. In the future, more and more countries will participate in the process of financial globalization and every country wants to benefit from this process. Generally speaking, financial globalization has following characteristics:

1. **Global Integration of Financial Market Participants:**The fund demanders can widely face the world to raise funds, and the fund suppliers can also choose objects on a global scale.
2. **Global Integration of Financial Instruments:**From basic financial instruments to financial derivatives, their national color has been weakened, and any financial instrument can become the object of global financial transactions.

3. **Global Integration of Financial Markets:**The markets of financial transaction tend to be integrated beyond the limitation of time and space. Investors and fundraisers are more free to engage in financial activities in financial markets around the world.
4. **Global Integration of Financial Activity Rules:**Whether it is domestic financial activities or international financial activities, the general rule is basically the same.

Figure 1. Annual international liquidity stock from 1980 to 2019 (International Monetary Fund, 2019)
Source: International Financial Statistics (IFS)

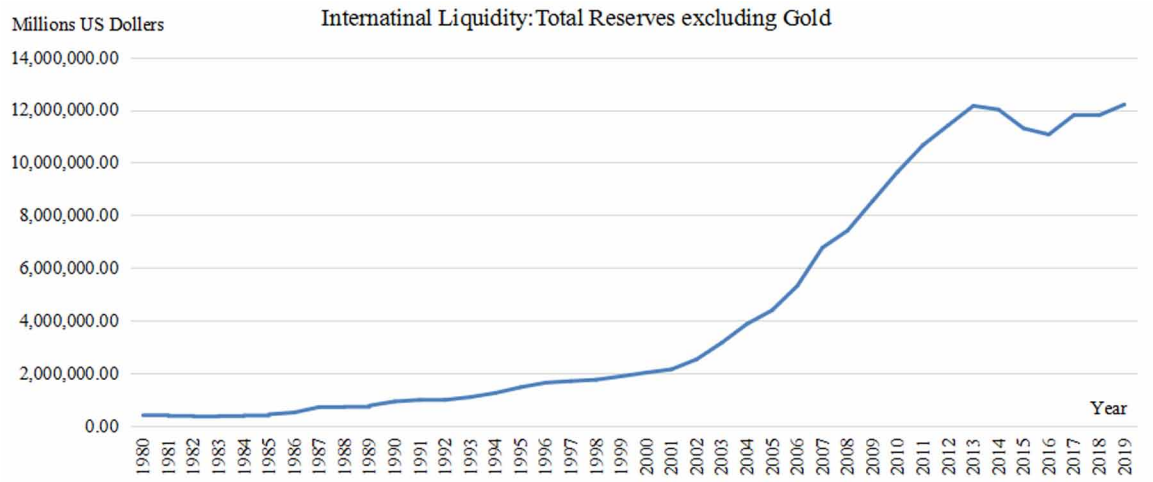
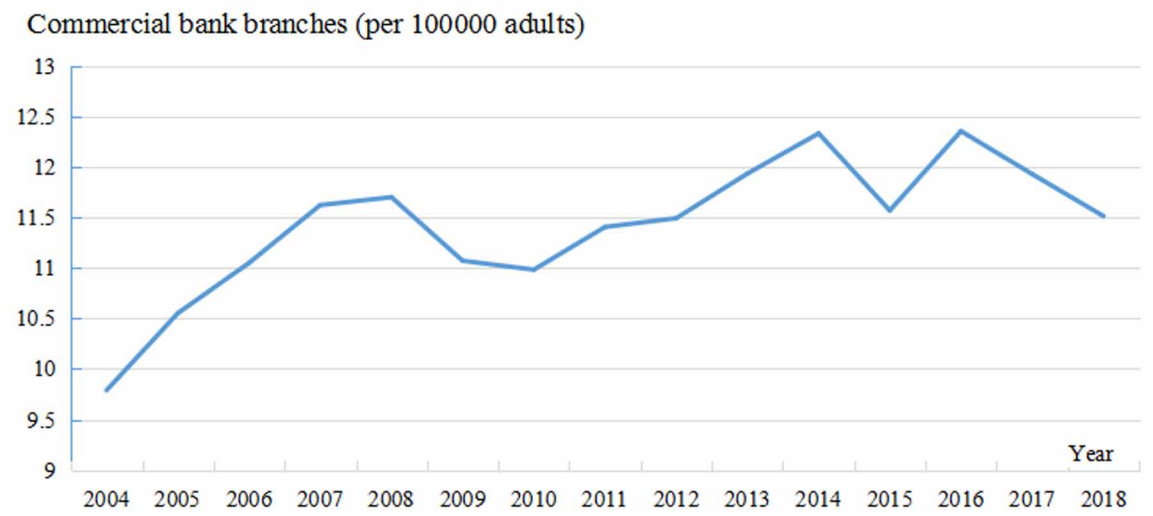


Figure 2. Commercial bank branches per 100,000 adults from 2004 to 2018
Source: (The World Bank, 2018)



However, for a country, participation in financial globalization mainly includes two aspects. Firstly, it means the opening of financial account; secondly it means the opening of financial industry. The opening of financial account refers to the deregulation of cross-border capital in transaction and exchange. The opening of financial industry refers to the relaxation of domestic access to foreign financial institutions engaged in banking, securities, insurance and other financial services. Moreover, there is a very close relationship between the two. Cross-border financial services provided by a financial institution need that the capital can flow freely across borders. If a country promises to open a cross-border financial service, it must allow for the relevant capital inflow or outflow too. As for the opening order, the opening of financial industry should be prior to the opening of financial account, because only by establishing an advanced and stable financial industry under the comprehensive supervision a country can resist the financial risks brought by capital flow under the full opening of financial account (Huang,2018).

The Relation Between Financial Globalization and Economic Growth

In order to have an intuitive impression of the relationship between financial opening and economic growth, since the latest data of the KAOPEN index is 2017, the table 1 lists top 10 countries in terms of growth rate from 1990 to 2017; and the table 2 lists 10 countries with the slowest growth rate during the same period. Compared their changes in per capita GDP with their changes in indexes of de jure financial openness, there are two characteristics worth noting:

1. Financial opening is not a necessary condition for rapid economic growth. It can be seen from the table1 that although the degree of de jure financial openness of China and Equatorial Guinea are limited, their economies have achieved relatively high growth rates. Moreover, the degree of de jure financial openness of Maldives and Lebanon have decreased, but the economies of these two countries still have rapid growth.

Table 1. The fastest growing economies and their de jure financial openness from 1990 to 2017(The World Bank,2020a) (Chinn &Ito,2006)

No.	Fastest growing economies (1990-2017)	2017 GDP per capita / 1990 GDP per capita	KAOPEN (1990)	KAOPEN (2017)
1	Equatorial Guinea	3641.0	-1.21	-1.21
2	China	2755.4	-1.92	-1.21
3	Vietnam	2485.2	-1.92	-0.14
4	Lao PDR	1192.5	-1.92	-1.21
5	Maldives	989.9	1.14	0.57
6	Nicaragua	896.4	-1.21	2.35
7	Sri Lanka	885.3	-1.21	-1.21
8	Guyana	859.6	-1.92	1.14
9	Poland	800.4	-1.92	1.07
10	Lebanon	774.0	2.35	0.00

Source: Databank; Chinn-Ito Index Table

Note: This table measures the growth rate of each country by dividing the GDP per capita (current US$) in2017 by the GDP per capita (current US$) in1990.The top 10 countries were selected.

2. Financial opening is not a sufficient condition for rapid economic growth. It can be seen from the table 2 that although the degree of de jure financial openness of the United Arab Emirates has always been relatively high, but its economic growth has been relatively slow.

Table 2. The lowest growing economies and their de jure financial openness from 1990 to 2017(The World Bank,2020a) (Chinn &Ito,2006)

No.	Slowest growing economies (1990-2017)	2017 GDP per capita / 1990 GDP per capita	KAOPEN (1990)	KAOPEN (2017)
1	Iraq	50.4	-1.21	-
2	Central African Republic	87.6	-1.21	-1.21
3	Libya	88.4	-1.21	-1.21
4	Gabon	115.1	-0.14	-1.21
5	Niger	121.6	-0.14	-1.21
6	Comoros	126.5	-1.21	-1.21
7	Burundi	140.8	-1.21	-1.92
8	Senegal	142.2	-0.14	-1.21
9	Congo, Rep.	143.4	-1.21	-1.21
10	United Arab Emirates	143.6	2.35	2.35

Source: Databank; Chinn-Ito Index Table

Note: This table measures the growth rate of each country by dividing the GDP per capita (current US$) in2017 by the GDP per capita (current US$) in1990. 10 countries with the lowest numerical value were selected.

On the surface, there is a positive correlation between financial globalization and economic growth. Generally speaking, the degree of financial openness of developed countries is higher than that of developing countries. Therefore, the participation of financial globalization is obviously a manifestation of economic advancement. Nevertheless, the above phenomenon does not exclude the possibility of reverse causality: that is to say, the participation of financial globalization is not the cause of a country's economic growth, but the strong economic growth makes the country choose to participate in financial globalization (Prasad, Rogoff, Wei, & Kose, 2004).The above phenomenon also does not exclude the possibility of another invisible factor which contribute to both economic growth and participation of financial globalization. In the following part, this chapter will elaborate on the relation between financial globalization and economic growth from the perspective of marginal benefit and marginal cost.

Rational people think at the margin. Economists use the term "marginal changes" to describe small incremental adjustments to an existing plan of action, so marginal changes are adjustments around the edge of what you are doing. By comparing marginal benefit and marginal cost, a decisionmaker can evaluate whether the decision is worthwhile. A rational decisionmaker takes an action if and only if the marginal benefit of the action exceeds the marginal cost(Mankiw,2014). So it is also rational for a policymaker taking marginal benefit and marginal cost into account when making a policy. From the perspective of marginal benefit and marginal cost, it holds that if an input is kept increasing, all other inputs are constant, the increases in output will eventually become smaller. That is, in the short run, if only one input is increased, the marginal benefit will eventually diminish. Correspondingly, to increase

one-unit output, it will require more marginal cost. When the marginal benefit equals to the marginal cost, it achieves the maximization of revenue (Perloff, 2016). There is a broad consensus that financial globalization can bring benefit to a country. Its benefit can be divided into direct benefit and indirect benefit.

1. **Direct Benefit:** After financial opening, the cross-border flow of international capital is no longer restricted, and capital flows in accordance with market principles. Therefore, international capital will flow from countries with low return on capital to countries with high return on capital, from countries with sufficient capital to countries with scarce capital, and rich countries will reap higher return on capital, while poor countries will have lower cost capital to invest in real economy so as to improve employment and income level.
2. **Indirect Benefit:** Indirect benefit from financial opening mainly refer to that the host country can improve productivity by imitating and learning advanced technology and management experience through foreign direct investment. The introduction of foreign financial institutions can contribute to the development of the domestic financial sector. Financial opening may also prompt the government to implement better economic policies. Because investors are very sensitive to bad economic policies and may withdraw their capital quickly. Financial globalization also can enable the risk averse economic man use the transnational financial market to realize asset diversification and avoid the income risk caused by short-term crisis, so as to smooth the fluctuation of consumption. In this case Financial globalization should generate welfare gains by reducing the volatility of aggregate consumption (kose et al. 2009).

A country's participation in the process of financial globalization is also a process of continuous financial opening and financial development, but it also has cost.

1. **Opportunity Cost:** Financial opening also means integration of financial market across different countries and can continuously innovate financial instruments, generate high return on virtual investment, so that the capital which could have been invested in the real economy will flow to the virtual economy more often, resulting in asset bubbles, forming the opportunity cost to the real economy.
2. **Externality Cost:** Financial opening also has negative externality. Financial globalization has adverse distributional effect and leads to an increase in top income shares. It also can reduce fiscal redistribution, which can increase inequality too (Furceri et al.,2020). So, governments considering financial globalization will face a tradeoff between equity and growth.
3. **Financial Sector Maintenance Cost:** Financial opening will lead to development of financial industry sector in a country. But the development and maintenance of financial industry sector should also absorb some social resources, such as material capital and human capital.
4. **Supervision Cost:** Because financial opening will lead to development of financial industry sector in a country, so there will be more and more financial institutions, more and more financial instruments, and financial system will be bigger and bigger, which will lead to more and more supervision cost.
5. **Risk Cost:** Financial opening can bring more financial risks, make the. financial crisis spread around the world and weaken the stability of financial system.

In a specific period of a specific country, this chapter regard finance opening as the only variable, and all the other factors (economic laws, policies, labor force level, etc.) that can also affect economic growth are constant. For the convenience of the following discussion, this chapter call all these invariants as social basic conditions. In the short term, when the MR (marginal revenue) of the financial opening>MC (marginal cost), the result brought by each increase in financial openness is positive. At this stage, continuous financial opening can promote economic growth. When MR = MC, at this stage, the financial openness of this country reaches the optimal scale in the short term, and the degree of financial openness and the social basic conditions of this stage will match best with each other, which will also bring greatest growth to economy. When MR< MC, every increase in financial openness brings negative results. At this stage, if the country continues to expand financial openness, it will hinder economic growth .If the country want to promote economic growth by continuing financial opening at this time, it needs to turn the short-term equilibrium into the long-term equilibrium, and increase the input of the other factors, that is, it need to improve its social basic conditions, such as changing macroeconomic policies, improving the labor force level, and modifying laws etc. The process of financial opening in a country is also the process in which economic development is constantly changing from short-term equilibrium to long-term equilibrium taking finance opening as the only variable. But one thing needs to be emphasized: in the above research, it has a precondition. It regards social basic conditions (economic laws, policies, labor force level, etc.) as invariants and finance opening as the only variable. But the standard of financial globalization is constant, it requires countries to deregulate financial account restrictions and capital can flow freely between countries. The exchange rate is determined by the market and can float freely. The financial industry is open to the outside world and foreign financial institutions can be set up in different countries freely. Once a country decides to participate in the financial globalization, it means this country has accepted these requirements. Therefore, for a country in the face of financial globalization, the factor of financial opening is an invariant here, and social basic conditions are variables. According to the above analysis of financial opening, it can be inferred, when the standard of financial globalization is given, the social basic conditions of a country must reach a certain level, financial globalization can promote the economic growth. Because only when the social basic conditions reach this threshold point, the marginal benefit brought by financial globalization will be greater than the marginal cost.

According to Cobb-Douglas production function, $Y=AK^aN^{1-a}$, through calculus, it can get

$$\frac{\Delta Y}{Y}=\frac{\Delta A}{A}+a\frac{\Delta K}{K}+(1-a)\frac{\Delta N}{N},$$

where Y is the aggregate output, A is the total factor productivity, K is the capital and N is the labor force. That means the aggregate output growth can be affected by total factor productivity growth, capital growth and labor growth. Among them, A is also known as "Solow residual", it includes all the factors that can cause economic growth apart from labor and capital. There is always economic growth that can't be attributed to the growth of capital or labor, it is caused by other factors, so all of these factors have a name "residual". In the above analysis, the more and cheaper capital a country can acquire is direct benefit brought by financial globalization, this direct benefit can be reflected on the growth of capital (K) in the Cobb-Douglas production function. The indirect benefit brought by financial globalization such as technology progress, advanced management experience, development of domestic financial industry can be reflected on the total factor productivity(A). Therefore, there are two channels for fi-

nancial globalization to promote economic growth. One is to bring direct benefit, increasing capital (k) to promote economic growth; and the other is to bring indirect benefit to promote economic growth by influencing total factor productivity(A). Quantitative studies of the effect of financial globalization on total factor productivity can be found in the works of Bonfiglioli (2008), Woo (2009), Arif-Ur-Rahman and Inaba (2020), and Bekaert et al. (2011). These effects on total factor productivity will be internalized into social basic conditions. That means the indirect benefit brought by financial globalization can be finally absorbed by a country to improve its social basic conditions. Furthermore, either the inflow capital (K)or total factor productivity(A) is just one factor in this production function, how much them can be actually absorbed by this country, or how much them can be finally transferred to the aggregate output, is determined by other factors. The process of inputs transferring into output is not isolated, it is in the society. So, through this functional relation, social basic conditions of this country can affect how much inputs can be finally transferred into output and determine how much capital and total factor productivity can be actually absorbed. Financial globalization can bring direct benefit and indirect benefit for a country, but the social basic conditions of a country can determine the absorptive capacity for all benefits. So, social basic conditions of a country are very crucial to its economic growth too.

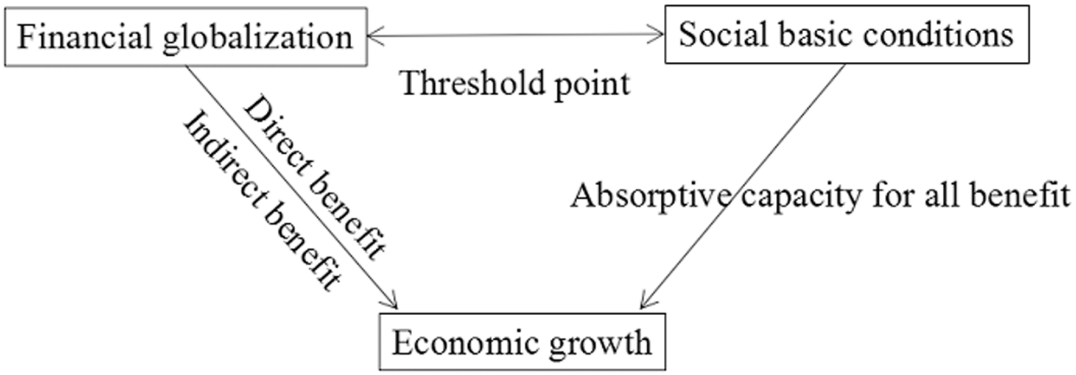
The Absorptive Capacity of Social Basic Conditions

The previous part of this chapter has discussed the social basic conditions, they are, for example, economic laws, macroeconomic policies, the level of labor force, the governance capability, etc. One financial activity mainly involves participants, financial instruments, financial markets and financial rules. The participants are subjects of financial activity, financial markets can be regard as sites, financial rules are an integral part of social basic conditions. So, the social basic conditions of a country determine the absorptive capacity for benefits brought by financial globalization mainly through affecting financial instruments. It is mainly reflected in the following aspects:

1. Social basic conditions can affect the choice of financial instruments. Debt financial instruments are more suitable for countries with weak social basic conditions. In these countries, the general legal system is not perfect, the transparency of macroeconomic policies is poor, and the degree of corruption is high. This is because compared with equity financial instruments, debt financial instruments are relatively insensitive to external social basic conditions, and the information asymmetry in the financial market has little impact on them.
2. Social basic conditions can affect the maturity term of financial. instruments. Countries with weak social basic conditions usually match with financial instruments with shorter maturity terms. Because these countries have poor investor protection and high cost of law enforcement, so investment activities usually be short-term.
3. Social basic conditions can affect the leverage ratio of financial instruments. In countries with weak social basic conditions, investors worry that their rights will not be protected, so they ask for the higher liquidity of collateral, the higher mortgage rate, so the leverage ratio is lower. In countries with strong social basic conditions, more assets can be collateral, and the mortgage rate is lower, so the leverage ratio is higher.

The relationship among financial globalization, social basic conditions and economic growth is shown in figure 3. Only when basic social conditions of a country reach a certain level, financial globalization can promote economic growth. Because only the social basic conditions reach this threshold point, the marginal benefit brought by financial globalization will be greater than the marginal cost. Financial globalization can bring direct benefit and indirect benefit for a country, but all benefits are interacted with social basic conditions of this country. The social basic conditions of this country can determine the absorptive capacity for all benefit.

Figure 3. The relationship among financial globalization, social basic conditions and economic growth



The State Quo of Financial Openness in China

There are many methods used to measure financial integration. In this chapter, two of methods are selected and the results are compared. Literatures on financial integration use two distinct measures: de facto and de jure indicators. De jure indicators are to measure the degree of restriction on cross-border capital flows and cross-border financial services in terms of laws and regulations. It reflects the de jure financial openness of a country. De facto indicators are to measure the actual cross-border capital flow. It reflects the de facto financial openness of a country. This chapter will measure the degree of China's financial openness from these two aspects.

1. **De Jure Financial Openness of China:** This chapter uses Chinn-Ito index (KAOPEN) to measure de jure financial openness of china, which is widely used in academics. Based on IMF's Annual Report on Exchange Arrangements and Exchange Restrictions, this method can reflect current restriction on financial account and exchange rate. The higher the KAOPEN index, the higher the degree of de jure financial openness. Table 3 presents the KAOPEN of China from 1988 to 2017. It can be seen intuitively that the KAOPEN of China was -1.91665 constantly from 1988 to 1992, the degree of de jure Financial openness was at a very low level during that periods. Since 1993, the KAOPEN of China has become – 1.21002. This is because since 1993, China began to cancel the dual exchange rate and gradually began to push forward the convertibility of the RMB under the current account and loosen the financial account control, so the degree of de jure financial openness has risen to a higher level.

Table 3. The KAOPEN of China from 1988 to 2017 (Chinn & Ito, 2006)

Year	KAOPEN	Year	KAOPEN
1988	-1.91665	**2003**	-1.21002
1989	-1.91665	**2004**	-1.21002
1990	-1.91665	**2005**	-1.21002
1991	-1.91665	**2006**	-1.21002
1992	-1.91665	**2007**	-1.21002
1993	-1.21002	**2008**	-1.21002
1994	-1.21002	**2009**	-1.21002
1995	-1.21002	**2010**	-1.21002
1996	-1.21002	**2011**	-1.21002
1997	-1.21002	**2012**	-1.21002
1998	-1.21002	**2013**	-1.21002
1999	-1.21002	**2014**	-1.21002
2000	-1.21002	**2015**	-1.21002
2001	-1.21002	**2016**	-1.21002
2002	-1.21002	**2017**	-1.21002

Source: Chinn-Ito Index Table

Table 4 presents the KAOPEN of some countries in 2017.From table 4, the KAOPEN of de jure financial openness of developed countries headed by the United States are 2.34671, which are at the highest level; among the BRICS countries, only Russia has the index of 0.62776, while Brazil, South Africa, India and China have the index of – 1.21002. It indicates that the degree of China's de jure financial openness is at a lower level. China, as an economic power, the degree of de jure financial openness is still lower than that of Malaysia and Vietnam which are weak in economic development. This shows that China's de jure financial openness needs to be further deepened to catch up with developed countries.

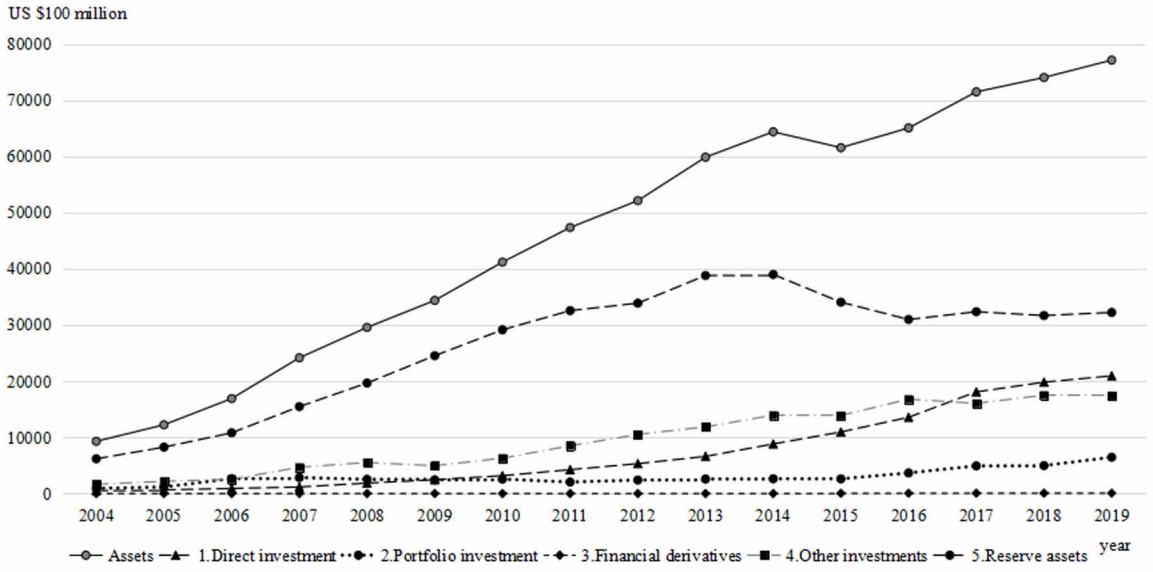
Table 4. KAOPEN of different countries in 2017 (Chinn & Ito, 2006)

Country	KAOPEN	Country	KAOPEN
USA	2.34671	**Malaysia**	-0.14115
United Kingdom	2.34671	**Vietnam**	-0.14115
Canada	2.34671	**Russia**	0.62776
Germany	2.34671	**china**	-1.21002
France	2.34671	**Brazil**	-1.21002
Italy	2.34671	**India**	-1.21002
Denmark	2.34671	**South Africa**	-1.21002

Source: Chinn-Ito Index Table

2. **De Facto Financial Openness of China:** This chapter uses the ratio of total stock of international assets and liabilities to GDP to measure China's de facto financial openness. For using this method, first of all, it is needed to sort out what does the cross-border capital include in China. According to the balance of payments, China's cross-border capital includes direct investment, portfolio investment, financial derivatives, other investment and reserve assets. Annual amounts of various international assets in china from 2004 to 2019 are presented in figure 4. Figure 5 presents annual amounts of various international liabilities during the same period. From the trends of various foreign asset curves and liability curves presented in figure 4 and figure 5, it can be seen that except financial derivative, the stock of various international assets and liabilities have increased rapidly through recent years.

Figure 4. Annual amounts of various international assets in china from 2004 to 2019 (State Administration of Foreign Exchange, 2020)
Source: China's International Investment Position



This chapter uses the ratio of annual stock of international assets and liabilities to GDP to measure China's de facto financial openness, it is presented in figure 6. Compared table 3 with figure 6, it indicates that the indexes of China's de jure financial openness don't changed in recent years, but the degree of China's de facto financial openness is higher. China's degree of restrictions on cross-border capital flows has not changed, but the annual ammount of China's actual cross-border capital has increased. This claims that China's current laws, policies don't match the actual stock of cross-border capital. That is to say, China's current restrictions on financial accounts and exchange rate have objectively become obstacles to the free flow of capital across borders. If China's economy wants to achieve further development, it needs to further expand financial openness and participate in the process of financial globalization.

Figure 5. Annual amounts of various international liabilities in china from 2004 to 2019 (State Administration of Foreign Exchange, 2020)
Source: China's International Investment Position

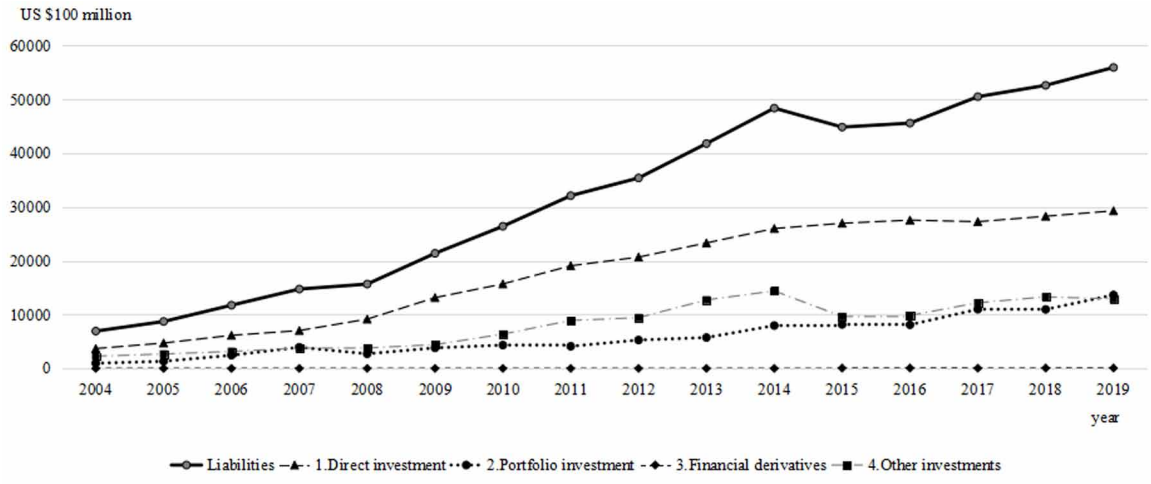
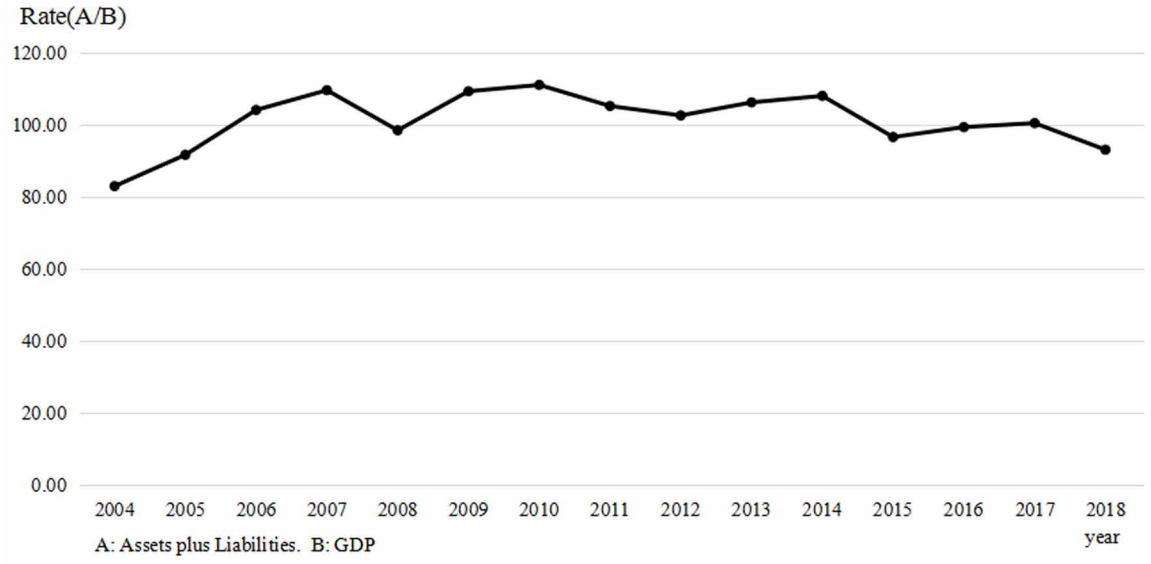


Figure 6. The ratio of China's annual stock of international assets and liabilities to GDP from 2004 to 2018 (State Administration of Foreign Exchange,2020) (The World Bank, 2020b)
Source: China's International Investment Position; Databank



Challenges Faced by China's Economy

After 40 years of reform and opening up, China's economy has achieved rapid development, but at the same time, China will face some very different problems from the past, especially the following four new challenges.

1. **The Loss of Low-cost Advantage:** At the beginning of the reform and opening up in 1978, China's per capita GDP was about $230, which was one of the poorest countries in the world at that time, but also objectively constituted a low-cost advantage. By 2007, China's per capita GDP had increased significantly to US $2600, but it was still at low and medium-income level of the world. By 2018, China's per capita GDP has been close to $10000, and it has entered the ranks of middle and high-income. The low-cost advantage of labor has gone forever. At the same time, China is also facing enormous environmental pressure. A typical example is the large-scale smog in the mainland. Therefore, with the loss of low-cost advantage and the increasing restriction of resources, China's industrial structure is facing great pressure of upgrading.
2. **The Accelerated Aging of population:** In the past, China really enjoyed demographic dividend. Since the reform and opening up, China's dependency ratio has been declining, with the lowest point about one third around 2010. But in future the dependency ratio could rise to two-thirds by 2049, meaning that every three working people need to support two old people or children. This will bring many new challenges to economic growth, including consumption, labor supply, savings and social welfare system. This problem also happened in Japan, but compared with Japan, China's aging of population is a little different, that is, the so-called "old before rich".
3. **The Reversal of Globalization Trend:** Since World War II, in the process of globalization led by the United States, the real tariff rate has been declining. Nevertheless, in the three years since trump became president of the United States, the real tariff rate has returned to the level before World War II, which means that the degree of global market openness is rapidly shrinking. Many countries have raised some doubts about the globalization policies, which at least constitutes a big uncertainty for the future economic growth. China is one of the main beneficiaries of globalization. If the global financial system and international economic system become less open in future, China will definitely encounter new pressures and challenges.
4. **The Unbalanced Development of Virtual Economy and Real Economy:** Virtual economy includes financial sector and real estate, while real economy includes the first industry, the second industry and the service industry except the financial sector. At present, the price of real estate in China is very high, especially in recent years, the price of real estate in China has exceeded the purchasing power of many people. With the increasing money supply year by year, the real estate has played a role of money reservoir to some extent. China naturally does not want to take the old road of Japan. One reason for the asset bubble in Japan in 1980s is that after financial opening, there is no restriction on the inflow of international capital to the domestic real estate, which leads to the soaring price of real estate.

SOLUTIONS AND RECOMMENDATIONS

According to Cobb-Douglas production function, labor capital total factor productivity are three important factors that can affect economic growth. There are two channels for financial globalization to promote economic growth. One is to bring direct benefit, increasing capital (k) to promote growth; and the other is to bring indirect benefit to promote economic growth by influencing total factor productivity(A). All benefits are interacted with social basic conditions. In essence, if China wants to promote economic growth by participating in financial globalization, it is necessary to strengthen its social basic condi-

tions, so as to improve the social absorptive capacity for benefits brought by financial globalization. In general, it mainly includes the following aspects:

1. **Establish a Financial System Matching the Real Economy:** Too tight financial system will not supply enough for the real economy, which will be harmful for the economic growth; but too inflated financial system will also become an obstacle to the development of the real economy too. On the one hand, the over inflated financial system will compete for the resources of the real economy; on the other hand, the over inflated financial system will encourage the economic entities to be over indebted. Financial institutions tend to finance the economic entities who do not have the ability to repay debts, it can increase the financial risk. So, in terms of total amount, the financial system should match the real economy. But the matching of the two is not only reflected in the total amount, but also in the structure. The result of structural mismatch is the low efficiency of investment and financing, as well as the unequal treatment. In China, the development of real economy is mainly driven by small and medium-sized enterprises, but they often face financial constraints like in Russia, such as the lack of personal funds, the complexity of access to bank loans, insufficient state financial support (Shevchenko&Arku,2019). The China's IPO market is unbalanced and has a number of unique problems such as delays in issue approval, IPO shares overpricing, and imperfect subscription mechanism (Shevchenko &Khomyakov,2015). IPO is a very important channel for a company to raise funds for growth, but there still remains some legislation that can assist in giving the general public a better chance in acquiring shares of government corporations or on privately owned companies (Shevchenko & Njoroge, 2020). In the process of China's participation in financial globalization, foreign financial institutions should be encouraged to provide financial services specifically for small and medium-sized enterprises in China. China's government should vigorously develop small and medium-sized financial institutions, innovate financial instruments, perfect legislation and establish a multi-level capital market. China's real economy is mainly composed of state-owned enterprises, listed companies and small and medium-sized enterprises, which are multi-level. So, correspondingly, financial institutions, financial instruments, capital market should be multi-level too. A multi-level financial system is to enable a specific enterprise to find a financial institution that is suitable for itself, to raise the funds through the suitable financial instruments in the suitable capital market.
2. **Create a Good Business Environment:** A good business environment is like sunshine, water, and air, which must not be lacking. Building a good business environment is the most important way to attract foreign direct investment. Foreign direct investment has always been the favorite way of foreign capital inflow for developing countries, because it is not only a long-term investment, but also can bring spillover effects, such as advanced technology, advanced management experience, etc. Creating a good business environment mainly includes the following aspects: first, the adoption of negative list management mode. Foreign investors do not need government approval outside the list. The second is the protection of the rights of foreign investors. The capital tends to flow to the countries that protect the rights of investors better. Beyond these, convenient commercial registration system, convenient dispute resolution mechanism, and more attention to intellectual property protection are preferable.
3. **Internationalize the Governance Capability:** Under the background of financial globalization, financial market is a global market, and the risks and problems it brings are also global, while the government is the government of every country. Internationalization of governance capability means

that in the process of national governance, every country should deal with the problems and crises brought by financial globalization together with other countries and should cooperate with each other. The global spread of covid-19 has shown that globalization is not only trade globalization, production globalization, financial globalization, but also the globalization of all-round governance. So, China's government should learn the successful governance experience from other countries at any time. Many rules of national governance are universal, which are identical with most countries. These rules should be in consistent with the common moral standards of human being. All of these can enable investors evaluate the investment environment and predict the investment results.

CONCLUSION

The previous literatures research the relation between financial globalization and economic growth usually from econometrics perspective, adopting some regression models as their empirical methodology. In this chapter, the author adopts the marginal analysis method of microeconomics and the economic growth theory of macroeconomics. The financial globalization as a social phenomenon not only bring benefit but also cost. In terms of marginal benefit and marginal cost, only when MR>MC, the result of participating in financial globalization is positive for a country. But different countries have different social basic conditions, so their cost of participation in financial globalization are different too. Only when a country's social basic conditions reach a certain level, participation in financial globalization can promote its economic growth. That is the threshold point between financial globalization and social basic conditions. So, in this point, the argument of this chapter on the relation between financial globalization and economic growth is consistent with conditional theory.

In this chapter, the author has raised a new concept "social basic conditions". It can be regarded as the initial state quo of a country when it begins to participate in financial globalization. It has a broad connotation and involve institution, culture, policy, technology and so on. In this chapter, it includes all the factors that can affect economic growth apart from financial opening. It is similar to the concept "total factor productivity", which can be regarded as all the factors that can cause economic growth apart from labor and capital. Both of them are "residual". They just classify the factors that can affect economic growth from different views. So, this chapter supports the previous empirical studies which propose that financial integration can promote economic growth through influencing total factor productivity.

In this chapter, the author divides benefit brought by financial globalization into direct benefit and indirect benefit and indicates that they can promote economic growth through two different channels. The direct benefit can be reflected on the growth of capital (K) in the Cobb-Douglas production function while the indirect benefit is reflected on the total factor productivity(A). The indirect benefit brought by financial globalization can be finally absorbed by a country to improve its social basic conditions. So, the total factor productivity can also be internalized into social basic conditions. The production process is not isolated, it is in the society. Financial globalization can bring benefit, but the social basic conditions can determine the absorptive capacity for these benefits. Therefore, in order to seize the opportunity of financial globalization to go out economy dilemma, China must improve the current social basic conditions, namely establish a financial system matching the real economy, create a good business environment, and internationalize the governance capability.

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KEY TERMS AND DEFINITIONS

Externality Cost: A cost that affects a third party who did not choose to incur that cost.

Financial Development: The continuous improvement of financial efficiency brought by the expansion of financial transaction scale and the process of financial industry upgrading. It is reflected in the elimination of financial repression and the improvement of financial structure, the innovation of financial instruments and the diversification of financial institutions to adapt to economic development.

Financial Opening: The process of deregulation of domestic and foreign financial institutions, deregulation of exchange rate and interest rate, deregulation of foreign exchange, and integration of domestic financial markets and institutions with international financial markets and institutions.

Marginal Benefit: The increase of output caused by one additional unit of input.

Marginal Cost: The change in the total cost that arises when the quantity of output is incremented by one unit.

Opportunity Cost: The cost incurred by not enjoying the benefit associated with the best alternative choice. It can be the other opportunity given up when engaging in another activity or the other income given up when a certain resource is used to obtain another income.

Threshold Point: A critical point, only when an economic factor is beyond this point, it can have an influence on another economic factor.

Chapter 14
Understanding FDI in Socialist Nations:
A Comparative Study Between China and Vietnam

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ABSTRACT

The link between foreign direct investment and economic growth has been widely studied. The studies have provided insights into how developing nations enable growth by adjusting policies to entice investors. Foreign investors entering emerging markets have to make strategic decisions on how to set up their operations. Investors look for markets and countries that would maximize their returns and position themselves as leaders in the industry. Hence, understanding entry requirements and economic policies are vital to understanding FDI. Keeping this in mind, this chapter analyses FDI in socialist nations and how their policies have evolved over time. The chapter will analyze the motivations and trends in FDI and how institutional conditions have enabled or impeded growth. The chapter studies China and Vietnam and compares their approach to FDI. The chapter uses Eclectic Theory posited by Dunning to understand changes in policies and how socialist nations are evolving to accept FDIs. The chapter concludes with a comparison section and presents scope for further research.

INTRODUCTION

The 21st century world is characterized by globalization and an unprecedented fast-paced technological evolution. The world is currently in a shift from ICTs to a new, undefined technological paradigm spearheaded by Artificial Intelligence. On a parallel line, Global Production Networks (GPN) and Global Value Chain (GVC) have created a need for regional development to create a truly interdependent framework. Though the debate over FDI has subsided since the 1980s, its role in development has been heralded as

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a game changer. However, its role in development comes with impediments. Global income inequality is fuelled by FDI and more in developing nations than developed.

This chapter will analyse the motivation and trends in FDI and the development of GVCs in the initial segment the chapter will put forth clearly with help of data and research the FDI trends across geographies. This will help establish how and why nations choose to make FDI a strategic component of their economic policy. The chapter then moves on to detail "Eclectic Theory" a popular theory used to understand impact of FDI on countries. Using this theory the issues and impact of FDI on a nation's economy and its correlation with other policies will be assessed through two case studies. So as to provide a level playing ground for analysis countries with similar political ideology the key influencer in any foreign collaboration has been chosen – China and Vietnam. The chapter will conclude with takeaways and scope for further research.

FDI and Development: Motivation and Trends

FDI has proven to be a better option than trade for firms to leverage endowment factors between home and host nations. The primary reason for this is that FDI enables MNCs to own and control operations abroad. This enables them to control overseas profits and capture market that would have otherwise been taken by importers and exporters. Historically, companies have invested overseas to gain access to local natural resources. Locational advantages can be defined as "benefits arising from a host country's comparative advantages accrued to foreign direct investors" (Shenkar & Luo, 2008, p.63). FDI inflows tend to be influenced by business environment of host nation, infrastructure, policies of the countries and access to minerals (Popovici & Călin, 2014). The choice of location is also influenced by behaviour and motivations of the firm. For instance, a resource seeking firm's objectives to engage in FDI would differ from a market seeking firm.

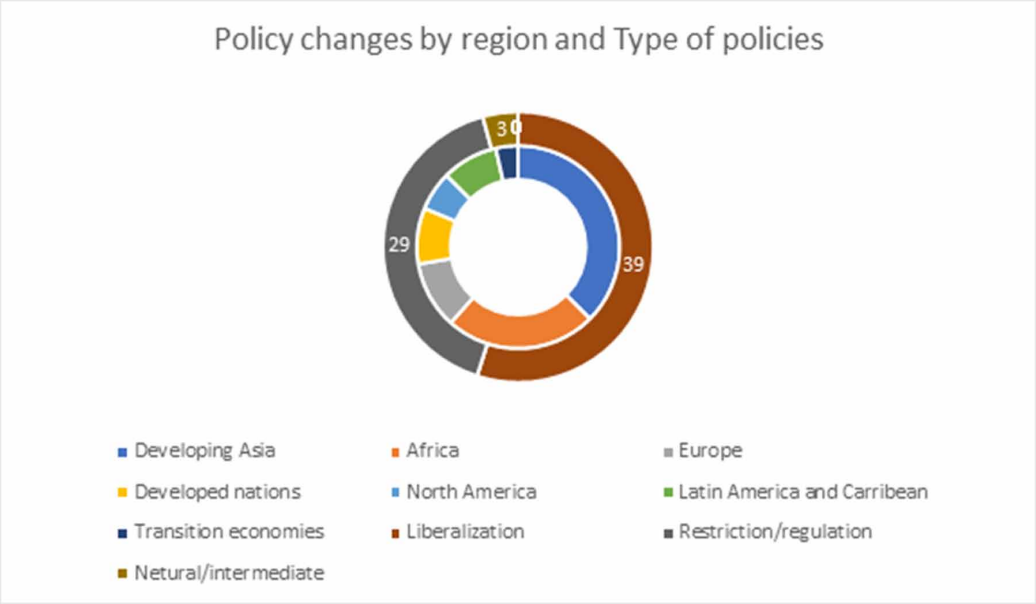
Firms generally tend to invest abroad to acquire a particular resource at lower real costs than the cost they would have incurred in their home country. This makes the motivation of FDI for the MNC to become profit-oriented and competitive in the markets it serves or intends to serve (Shenkar & Luo, 2008). For instance, PepsiCo heavily invested in Brazil and Argentina (Madura, 2008; PepsiCo, 2018). The main reason for investment were benefits resulting from economic liberalization. Labour differentials, non-tariff barriers and tariff policies are important while choosing a country to invest. MNCs tend to use knowledge of market and information scanning abilities to select countries that would reap them the most profit.

MNCs are also motivated by policies taken by states. For instance, tax incentives, investing in greenfield projects, and subsidies on cross-border resources make FDIs a lucrative form of investment. Figure 1 provides an understanding of the number of national investment policy measures have affected the areas where companies invest. Other motivations for MNCs to invest in a nation include:

1. Reduced inventory costs
2. Efficient utilization of capacity
3. Access to domestic markets with specialized skills
4. Benefits from special tax privileges
5. Benefits from special tariff treatments between host nation and key trading partners (Abe, 2009).

Other reasons for these companies to invest in nations abroad include proximity to the customer base and markets, and access to certain markets which would be impossible due to high tariff and non-tariff products. Horizontal and vertical FDIs also create avenues for investing in nations (Caves, 1982; Helpman, 1984; Markusen, 1984).

Figure 1. Policy changes by region and the Type of policies engaged by the regions
Source: UNCTAD (2019c).

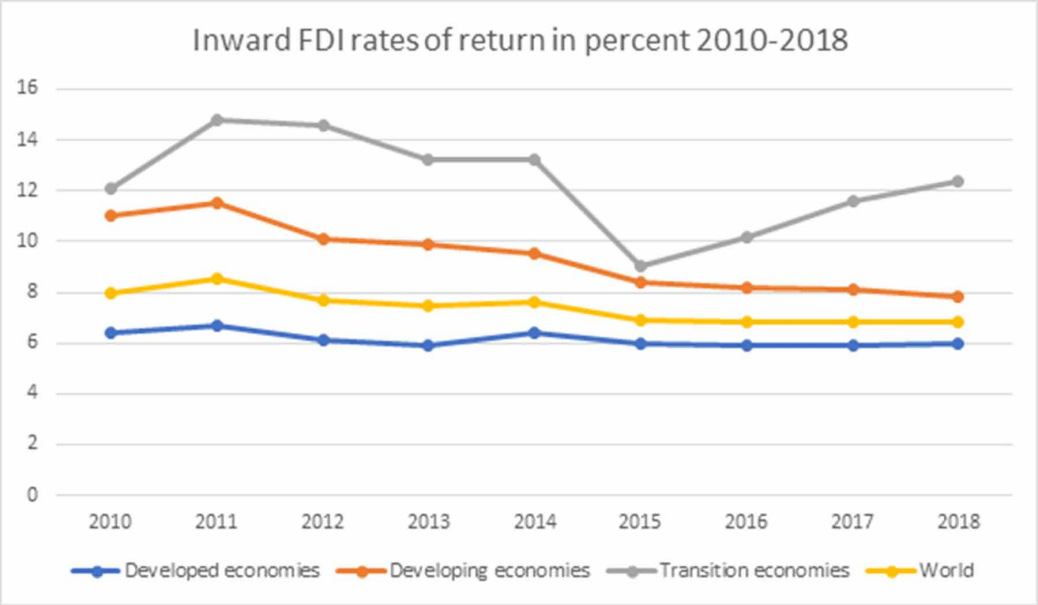


FDI plays an imperative role in economic stimulation for the host country. Research by Harvard has shown that FDI leads to higher growth rate, and local conditions such as the education level of a country are positively affected by FDI (Alfaro, Chanda, Kalemli-Ozcan & Sayek, 2006). Host nations also benefit through an increase in access to management skills, expertise and technology. R&D in the nation and transfer of patents also help the nation in developing through technology exports. Another potential source of spill-over is the impact of subsidies on local suppliers and consumers. The intra-industry spill-over would also lead to an improvement in production of local firms (Blomstrom, 2001).

Global investment rates have shown a modest recovery of 10% in 2019 (UNCTAD, 2019c). This calculation is based on the UNCTAD econometric forecasting model for FDI inflows. The decadal rate is also 10% bringing global investments to $1.39 trillion (UNCTAD, 2019c) with a 41% jump in greenfield project announcement. The projected increase in FDI flows is highest in developed economies with Europe seeing an increase of 60%. Long term trends indicate an increasing growth rate in transition economies resultant of tax reforms, megadeals, and volatile financial flows.

As seen in Figure 2 and 3, Developing nations in Asia have been experiencing an increase in FDI inflow. Asia has consistently been the largest continent to receive FDI flows. One of the reasons for this is the increasing M&As. FDI inflows due to M&As reached 62% -- the highest since the dotcom boom of 2000. M&As mostly occurred from companies headquartered in the US. Another emerging trend

Figure 2. Inward FDI rates of return 2010-2018
Source: UNCTAD (2019c).

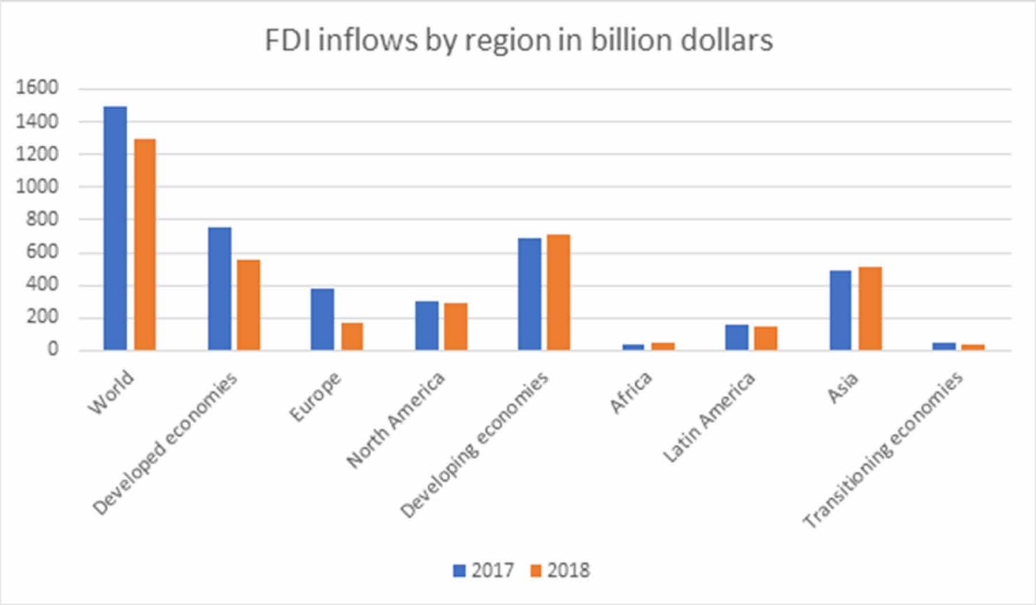


is the increase in greenfield projects. Most of these projects are in the mining industries. Developing nations, especially those in Africa, have relaxed their screening process for companies in this industry.

Data from Shenkar and Luo (2008) have shown that foreign invested enterprises tend to perform better due to resource endowment. The proportion of indirect foreign company's involvement at any stage of product life cycle tends to be higher than what the country depicts. For instance, in 2005, 58% of China's exports were accounted by firms with foreign equity (Naughton, 2007). The inward flow of FDI has enabled domestic companies to expand abroad. Haier currently exports to developing and developed nations – an act which would be impossible without sufficient inward FDI flow. FDI also leads to innovation and knowledge which is disseminated through local echelons of the economy. The degree to which local firms can take advantage of this depends on host of other factors such as local infrastructure, access to resources and government policies.

While FDI seems to benefit domestic companies, it can also act as a deterrent (University of Pennsylvania, 2004). Governments engage in favouritism such as providing tax breaks and lowering taxation rates. These benefits are not extended to local enterprises. Hence, the institutional discrimination results in lesser competition in markets local industries are weeded out. SMEs that survive this discrimination are faced with lesser margins of profits. This results in layoffs and closure of facilities (Shenkar & Luo, 2008). Such cases were reported in Nigeria when Shell, Chevron and Texaco started operations (Panibratov, 2017). The Nigerian National Petroleum Corporation has since lost a sizeable amount of market share (Shenkar & Luo, 2008).

Figure 3. FDI inflows by region in billions
Source: UNCTAD (2019c).



Eclectic Theory

The Eclectic Theory or OLI Theory developed by John Dunning (1977) is an approach to study FDI. It provides a fruitful explanation to understand how Multinational Companies (MNCs) invest FDI in countries. In itself, OLI theory cannot be considered a stand-alone theory. It has to be followed with data to be viewed in a scientific manner (Pheng & Hongbin, 2006). The abbreviation of OLI stands for Ownership, Location, and Internationalization. As one of the foremost prevailing theory, this section would elaborate on OLI and then proceed to apply it in the subsequent sections.

Dunning (2000) provides three aspects that drive Ownership. First, possession and exploitation of monopolistic power. This was elucidated by Bain (1956) and Hymer (1960) who viewed that monopolistic power impedes entry of final goods into a country by firms not located in the host country. Firm specific advantages include technical, managerial and business development processes. Specific to FDI, socialist ideology should ideally prevent complete ownership of companies by foreign investor. However, as the chapter proceeds, one notices ideological compromises made by Vietnam and China to tap into the benefits of FDI. The second aspect Dunning (2000) refers to is the resources available in the host country which makes it a unique area to invest in. Traditionally, in developing nations, it includes labour market and natural resources. Finally, the ability of firms to coordinate trade across the globe. These resources must originate from the country and can include technical assistance or presence of Representative Offices.

The Location aspect of OLI involves conducting cost benefit analysis before investing overseas. Two perspectives can be considered which evaluating decisions to invest. First, locational interaction with domestic firms in the host country. For instance, this could include understanding the impact and market share between domestic textile firms, contractors and foreign companies. Second, the location aspect

includes context specific information such as proximity to other markets, geostrategic location and risk diversification. This when understood at a macro level involves policies, political and economic stability and foreign exchange regulations.

The Internationalization aspect includes understanding entry modes and understanding transaction costs. Internationalization as a concept covers aspects such as ability to grow from the host country and diversify. According to Coase (1937), the optimal scale of the firm and degree of internationalization reflects a balance between organizational costs of running the firm and potential costs of using the market. This study was used as a base by Ethier (1986) who stated FDI can be vertically aligned (sold to downstream users) or horizontal greenfield projects where a firm locates a plant abroad to improve its market access to foreign consumers.

THE CHINESE CASE STUDY

History

To understand current FDI trends in China, it is essential to go back in time and track the evolution of modern Chinese economy. The Chinese economic model between 1949 and 1979 heavily leaned towards a USSR styled economy which tended to have an internal focus on heavy industry (Voss, 2007). Similar to USSR, the Chinese economy closed itself to international economic relations. The result of following the Soviet model involved 600 commodities being integrated within the economic system (Naughton, 2007).Despite lower degree of control vis-à-vis USSR, the Chinese government did not nationalize their economy till 1956 and government guided industrialization neglected domestic services and household consumption. This impeded balanced economic growth as concentration of heavy industry by China caused economic shock during the Major Leap Forward (1958-1960).

In an attempt to accelerate industrialization, resources were diverted from rural areas to industries in urban areas. This was followed by the Open-Door Policy in 1979 which was a reactionary policy measure to improve China's economic situation (Voss, 2007). Gradual economic reforms were brought in with an end goal of an open market economy. The government engaged in a "tit-for-tat" policy followed by numerous economic reforms based on trial and error. The advantage of using a trial and error method enabled China to decide which economic reforms best suited the economy and institutions without causing any major disruptions (Voss, 2007).

One of the successful measures was the opening of Special Economic Zones (SEZs) for foreign enterprises. This was followed by gradual introduction of a dual price system and dual exchange rate system in the economy. (Voss, 2007) The SEZs were created in areas devoid of contact between foreign and domestic firms. However, the SEZs provided Chinese companies an opportunity to learn from foreign MNCs (Voss, 2007). The dual price system provided a chance for domestic firms to sell products in quantities that exceeded direct quantities at market price. Similarly, State Owned Enterprises (SOEs) were selectively and partially released into managerial-led governance by introducing a system that provided autonomy (Broadman, 2001; Child, 1994).

The evolution of China's FDI policy cannot be seen in isolation. The rule of law in the country clearly demonstrates a struggle between government regulation interest for public goods and the interest of freedom of contract to promote economic prosperity through a unified market. Such struggle has seen experts defend China's position on FDI by creating a "Chinese exceptionalism" narrative. There are two

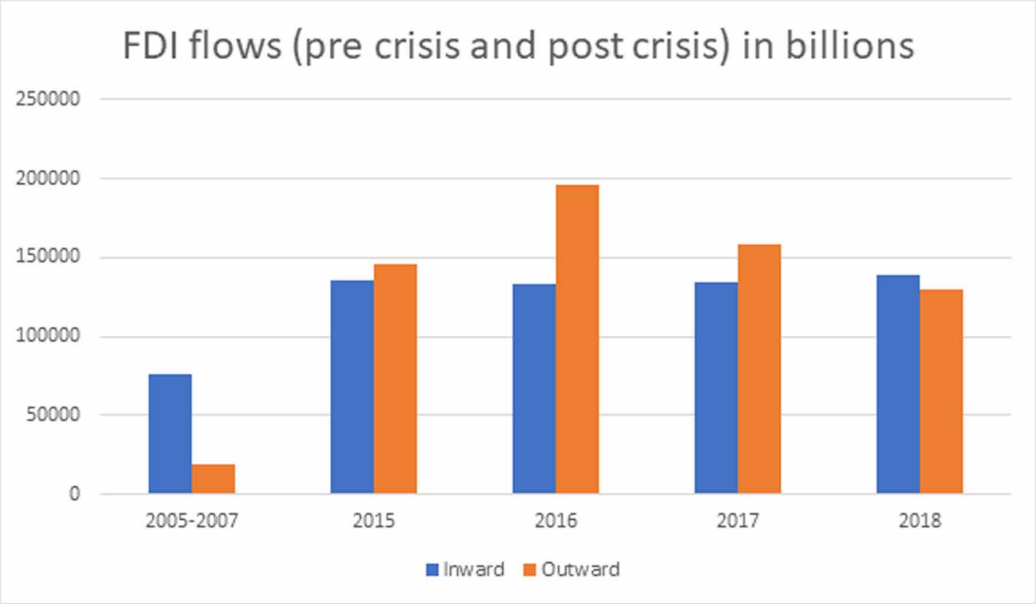
arguments developed during the past decades within academic communities (Gao, 2017). The first argument questions the Chinese attitude and Chinese rule of law and *Guanxi*. The second argument focuses on Chinese political and constitutional system being incompatible with FDI's inherent nature (Gao, 2017).

Initial reaction of the Chinese government was to engage in a form of economic censorship – which created an impression of an economic system that pleased the central authority by filtering elements that the central element deems unfit. The quality and effect of this censorship was questionable as it cannot satisfy numerous desires posed by multiple central officials. Foreign investment brings in a new element to China's economic censorship as it introduces a new case to protect public goods. This rule of law is compatible with China's new economic structure and new international frameworks have ensured that China can facilitate opportunities by creating a far less intrusive and disruptive regulatory system (Gao, 2017).

FDI, Development and China

According to the eclectic framework by Dunning (1993), FDI tends to bring capital, technology, and production knowledge. It also contributes to the economic development of the host country through capital formation. With regards to China, FDI has resulted in the adoption of newer capital. This resulted in the country forming novel policies which in turn influenced the labour force. As of 2014, Chinese policies resulted in FDI firms hiring 29.6 million Chinese residents. As seen in Figure 4, the country has attracted close to $1.39 trillion which influenced its GFCF.

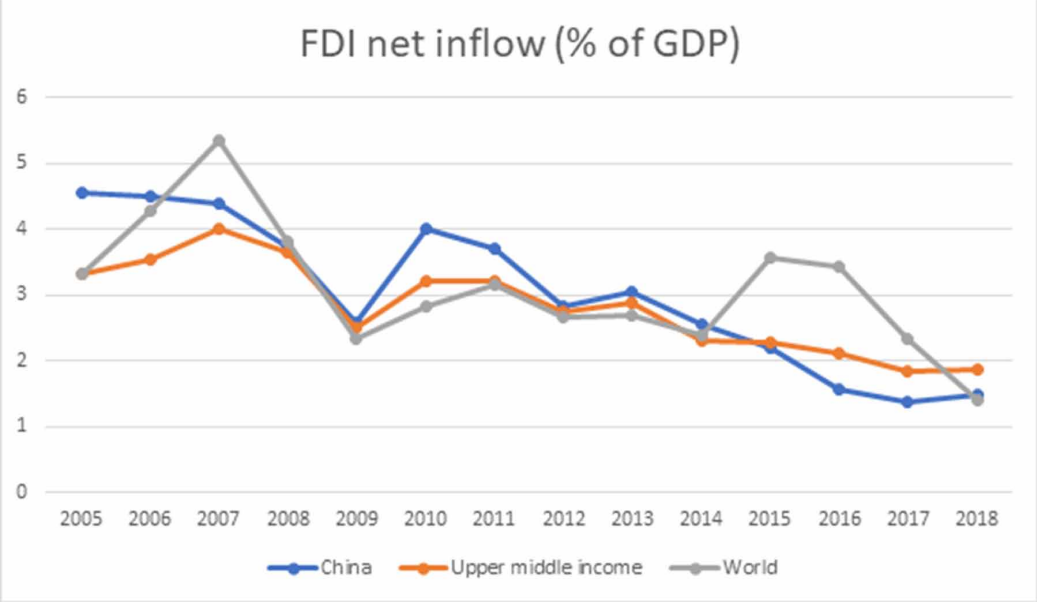
Figure 4. China FDI flows pre and post 2008 financial crisis
Source: UNCTAD (2019a)



The impact of FDI on China's economy has been extensively documented. Chen et al. (1995) noted the increase in FDI was associated with an increase in GDP. Chen (2011) noted that FDI led to an increase in capital growth through capital inputs and positive knowledge spill-overs. Foreign companies enjoy preferential treatments through Foreign Invested Enterprises (FIEs) and dedicated Special Economic Zones (SEZ) in different districts. Each SEZ is governed by different policies at a provincial level. The government also has two policies – Develop China's West at Full Blast and Strategy of Reviving Rusty Industrial Bases.

Chinese FDI policies are complex. China's FDI policies are heavily export oriented. It is difficult for FIEs to sell their products in the country. The constant flow of FDIs has made it a hub for production. However, this has created a domino effect where FIEs of the same industries compete against each other. This has resulted in a drop of net inflow as seen in Figure 5. Chinese policies also include exemption for input imports for reexport and abolishing value added tax. These two trade policies have boosted the export value of products tremendously.

Figure 5. China FDI net inflow in percentage relation to GDP
Source: World Bank (2018a)



Since 1999, Chinese officials have framed FDI policies in a manner that encourages foreign investors to establish their R&D centres in China. Major policies include:

1. Exemption of taxes on imported equipment and supporting technology confined to FIE's laboratory
2. Exemption from sales tax on income from products developed through transfer of technology
3. Sales of products on a trial basis provided the product is developed in an R&D centre in China (Long, 2005).

In addition, China has empowered regional governments to use preferential policies for FIEs including subsidized renting of land, assistance with recruitment and subsidies on electricity. The policy has attracted major companies like Microsoft, Nortel, Siemens, Intel, Motorola and Honda (Long, 2005). FIEs setting R&D in China also get the opportunity to work with Chinese labs which has led to improved foreign relations between nations. For instance, Novartis partnered with Shanghai University to set up the Novartis Institutes for Biomedical Research to develop newer drugs (al Idrus, 2019).

A final unique policy that enabled Chinese technological industry to develop was the '*swap market for technology'* strategy. According to this principle, foreign investors are required to import advanced technologies in return for entry to the domestic market. These could only be done through JVs where the FIEs own lesser than 50% of the company. However, there has been a downside to this strategy. In order to regulate entry into domestic markets, the government increased tariff rates and erected non-tariff barriers to protect the domestic market. This acted as a deterrent for FIEs to pursue technological advances (Long, 2005).

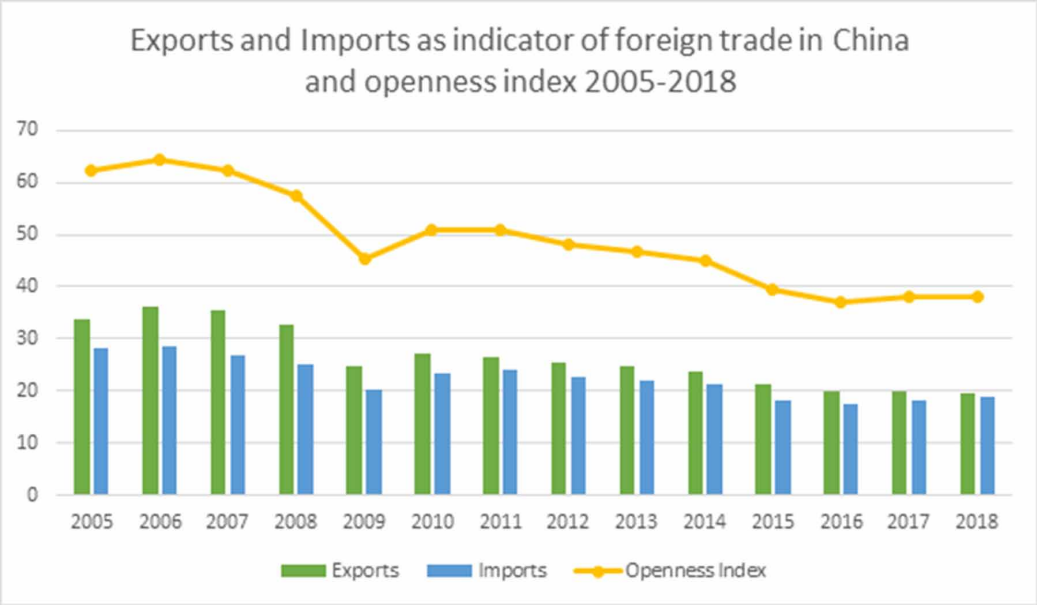
China and GVCs

China's rise as a leader in manufacturing products in less than three decades is a result of its comparative advantage, rapid development of global production and preferential government policies. This led to the economy becoming highly focused on GVCs in manufacturing sector. The dependence of China on imported intermediaries and FDI enabled China to quickly formulate different GVCs. As seen in Figure 6, the exports outsrips the imports.This made it the fastest emerging world power in mankind's history. A large amount of current FDI inflows in China can be traced back to 1994 to 2014. Over $1.6 trillion poured into the country during this period as the country entered the WTO ergo clearly establishing its motive to become an economic power (Zhi & Dollar, 2018). For this to occur, the government began relocating downstream labour-intensive stages of manufacturing and eventually integrated the national economy into international production line networks.

With a large pool of low wage unskilled labour, the country became the preferred destination for assembly of goods. This created a comparative advantage over other Asian nations and eventually led to the country engaging in "processing exports". This accounted for over 50% of China's manufactured exports. By integrating processing exports with global production networks, the country was able to upgrade its value chain.

Realizing the potential of GVCs, the government created policies that promoted GVC integration. These policies include duty exemption and VAT rebate for intermediate and equipment import, providing tax incentives to promote export oriented FDI, instituting SEZs, exemption of custom duties and investing in infrastructure (Zhi & Dollar, 2018). The country is also able to add value to GVC chains through developing highways that connect key manufacturing hubs, improving telecommunication services, and opening up to international trade and access to markets (Bose, 2012). Structural infusion of trade and FDI has enabled intermediary producers to expand product varieties. When combined with liberal policies, FDI investors are able to buy intermediary inputs from domestic markets and rely less on imports (Kee & Tang, 2016). Under these conditions, more than 90% of China's ATP exports were processing exports and 60% of China's ATP exports to the US were from government policy zones.

Figure 6. Understanding exports and Imports as an indicator for FDI (China)
Source: Global Economy (2019a); World Bank (2019a; 2019b)



APPLYING ECLECTIC THEORY TO CHINA

Ownership

Foreign investors establish a business in one of the five ways: Wholly Foreign Owned Enterprise (WFOE), Representative Office (RO), Joint Ventures (JVs), Partnership Enterprise (PE) and Hong Kong Company (Path to China, 2019). WFOEs are those companies that are completely owned by foreign investors. Any LLC can become a WFOE provided required criteria such as liability to limit to equity payment of taxes in China and generating income in China are met. ROs require no registration capital and function as a liaison office between the firm and customers. Its activities are limited to quality control and is prohibited from generating revenue and entering contracts with local Chinese businesses. PEs are a new type of business introduced in 2010. It involves two or more foreign companies establishing a partnership with Chinese companies. The investors can generate revenue and engage in contracts with local governments. JVs are LLCs formed between a foreign investor and a Chinese company. JVs are restricted to certain industries like education, mining, hospitality, etc.

The next two entry forms are unique to Chinese FDI investment- use of Hong Kong route and Shanghai FTZ. A Hong Kong Company is used as a special channel to invest in mainland China. Hong Kong's ability to incorporate businesses effectively has resulted in China forming a new form of entry for foreign investors.

Finally, the upcoming Shanghai FTZ includes Waigaoqiao port, Yangshan Deep-Water Port and Pudong International Airport (Zhang, 2019). Here, the Chinese government has ensured that custom formalities are convenient, and goods would be registered for cataloguing value of goods (Zhang, 2019). However, there will be no inspections and declaration process for goods entering China. China aims

to create a tax friendly FTZ which would encourage financial product innovation. The Shanghai FTZ aims to enable China to adapt to the global economic trends and create a conducive environment for cooperation between nations (Path to China, 2019; Zhang, 2019).

Location

Foreign MNCs are market-oriented and tend to invest in under-developed or unexploited markets. To make an impact, MNCs set up business ventures with local companies. The goal of these companies is to generate revenue through increasing market share, tapping into growth opportunities and understanding the purchasing power of the consumer to realign business models (Bose, 2012). In short, countries that the highest chance of economic development will eventually attract more FDI. These arguments are the primary reasons why foreign investment enters China. (Cassidy & Andréosso-O'Callaghan, 2004). Corporate giants consider Chinese market as the largest in the world with over billion consumers. The last few years have also witnessed an increase in purchasing power of consumers. This makes it ideal for companies from electronics, appliances and FMCG to invest in China (Clifford & Webb, 2003).

A major advantage for investors interested in entering the Chinese market is the availability of human resource. Investing in China means tapping into a the country has a rich source of labour. Furthermore, the labour pool is becoming more skilled which enables MNCs to invest in R&D (Harney, 2015). Through the understanding of supply and demand, it becomes apparent that the labour is cheap in China by a great margin when compared to Europe and USA.

To attract more FDIs, the government has improved its IP laws and regulatory frameworks for businesses (Kaiyuan, 2019). This creates a sense of surety amongst investors who look at China as a safe investment. The processes involved in making changes to the regulatory frameworks include provision of Equity Joint-venture Law and Contract. The country is also a major hub for exporting goods and structural reforms such as relaxing tax restraints have welcomed foreign investment.

Internationalization

Liberalization in China has attracted multiple foreign investors. The Chinese economy has ensured that the amalgamation of local institution and business groups' commitment is presented in a manner that is appealing to foreign entrants (Yiu, 2010). The home locations of domestic businesses and channelling of foreign resources have enabled businesses to grow in terms of capacity and ability to compete in global markets. In China, business groups have a higher probability of partnering with foreign investors than non-group businesses. Given the footfall in domestic markets these consortiums have become popular targets for foreign alliances to join either as a JV or alliance (Lu & Ma, 2008). One can look at Haier and Mitsubishi to understand internationalization and cooperation between foreign MNCs and business groups.

Another factor that enables internationalization is the institutional support provided by the government to JVs. Governments in developing nations tend to focus on outward FDIs (Sauvant, 2008). The Chinese government has enabled policies that aim to transform state-owned enterprises into giant MNCs which can compete in the global market. These MNCs receive special benefits for internationalization such as access to foreign currency, application of OFDI projects and domestic tax breaks. New institutions such as the China Investment Corporation and China Development Bank provide special loans to assist overseas expansions Yiu, 2010). For instance, Haier received a number of financial ailing firms for free from governments. By forming a JV with Haier, Mitsubishi was able to tap into this new resource.

THE VIETNAMESE CASE STUDY

History

Vietnam's government has been characterized as a "bureaucratic, yet entrepreneurial, business environment" (von Glinow & Clarke, 1995, p. 36). The country has gradually been engaging in reforms since 1986 through the *Doi Moi* (Renovation) policy. It mimicked the Chinese model but the communist party remained in power. In 1999, changes in policies witnessed 34,000 new enterprises registering with $2.1 billion capital (Nguyen et al., 2003). Despite this, major aspects of economy were still subject to regulations or direct involvement by authorities from the government. At the turn of the century, state owned companies generated more output than private firms albeit the percentage share kept declining from 40% in 1997 to 38% in 2001 (Nguyen et al., 2003). The country has engaged in restructuring programs that have been formulated in tandem with the World Bank (Meyer & Nguyen, 2005). The program envisions privatization, growth of market, reduction of subsidies, and restructuring NPA loans by reforming state owned enterprises (Nguyen et al., 2003; Painter, 2003). Similar to China, the restructuring of state-owned enterprises meant that they were subject to market criteria.

By implementing the *Doi Moi* policy in 1986, the government called for an increase in support from domestic private sectors and foreign investment. This signalled a shift in economic outlook to the world (Vo & Nguyen, 2012). In a bid to attract foreign investment, the Vietnamese government had to commit to improving its public facilities. Authorities at local and national level promised foreign enterprises stable supply of electricity – which was a major problem in 1990s. A continuous supply of electricity is a critical resource to manufacturers and was viewed by the government as a pre-condition for minimizing risk of investors losing money. To foreign investors, the provision of stable electricity signalled the commitment of the government to protect the investor's interest (Vo & Nguyen, 2012).

The country also invested to improve its transportation system. The road transport system transformed significantly in the first decade of the 21st century. Vietnam saw an increase in density of roads from 0.66 km/km2 in 2000 to 0.77 km/km2 in 2010.Major bridges and highways were reworked and the country saw an improvement in connectivity between ports, airports, and roads to major hubs in the country (Vo & Nguyen, 2012). Vietnam also improved its railway network. Quality and management of trains and train stations improved significantly. Airports became more active and the country has 10 airports with three major international airports: Noi Bai International Airport, Tan Son Nhat International Airport and Da Nang International Airport located in Hanoi, Ho Chi Minh City and Da Nang respectively (Vietnam Online, n.d.).

Vietnam has also engaged in structural changes of its institutions by switching form a central planning regime to a free market system. The Vietnamese government has delegated few functions, responsibilities, and rights to regional economic players. These include regional government and state-owned enterprises (Vo & Nguyen, 2012). This was done to ensure flexibility which then translates into developing markets and analysing market trends. Vietnam also saw a shift in ideology among the echelons of the government with the resolution of the Sixth Party Congress stating that the devolution of responsibilities is in line with principles of centralized democracy (Stern, 1987). The subsequent resolution during the eighth meeting of the Central Executive Committee stated that the central government would resolve policies at a macro level whilst keeping in mind administrative decentralization (Vo & Nguyen, 2012). This, Vietnam believed, would create a sense of initiative and hold local governments responsible for their actions.

There were two reasons for devolution of tasks and functions. First, economic activities increased rapidly due to the *Doi Moi* policy. This made it difficult for the central government to monitor all economic activities. The government needed to find a regulator who would abide by party lines and can be held accountable. This led the Vietnamese government to provide local governments power to regulate economic activities so that the national government can focus on bigger issues. Second, there was an emergence of a greater consensus that provincial governments faced different advantages and limitations with regards to policies of the national governments. By delegating more power to provincial governments, Vietnam ensured that these institutional bodies were autonomous to an extent. This helped the local governments to solve problems and act promptly on socio-economic development without waiting for a nod from the national government.

FDI, Development and Vietnam

As the second largest nation in South-East Asia, Vietnam continues to be one of the most attractive locations for MNCs. The country opened itself in 1980s when restrictions on private investments were lifted in progression (Cooper, 2002). The country has shown a greater preference for FDI after the establishment of the Foreign Investment Law (1987) and was eventually reinforced by the 1992 Constitution. However, FDI inflow slowed down in 1996 but eventually increased through Vietnam's the *Doi Moi* policy (Kien & Heo, 2008).

Vietnam's development was a result of its tariff structures, reduced export duties and decentralized trading systems. The country also broke down state monopolies and signed over 39 bilateral treaties to avoid taxation on income and capital on FDI. Becoming a member of ASEAN also played a role in its development. It is continuously restructuring its policies through its integration into AFTA (Okabe& Urata, 2013; Phuong, 1997). Recognition of private ownership became a key turning point which resulted in a boom of companies that grew into MNCs. In 2002, the government passed a law that enabled party members to engage in private business. This enabled key politicians to bring foreign investment and companies under their name (Jeffries, 2007). This has resulted in Vietnam experiencing high FDI net inflow – as seen in Figure 7 when compared to the world and similar nations.

Overall inward FDIs have increased over the years. Inflows were as high as $2 billion in 2000 and currently stands at $15,500 billion (UNCTAD, 2019a). In recent years, top investment came from companies based in Asia. A large share of these inflows – documented in Figure 8 – would go towards the manufacturing sector and infrastructure. Vietnam has also attracted multiple green field projects and has seen an increase in exports. Foreign companies are taking an increasingly important role in Vietnamese foreign trade. The role is expected to increase as Vietnam softens its stance on foreign investments (Giroud, 2011).

Empirical analysis by Anwar and Nguyen (2010) shows that an increase in the stock of FDI leads to an increase in economic growth. This, in turn, attracts more FDI. Policy analysts have also associated an increase in educational spending in Vietnam with an inflow of FDI. Key cities such as Ho Chi Minh City, Binh Duong, Nha and Trang have developed infrastructure tremendously as the Ministry of Planning and Investment are looking for FDI projects such as Dai Phuoc Lotus in Ho Chi Min City and Future Otis Hotel in Nha Trang to act as model projects which can attract FDI in real estate (Hieu, 2018).

Figure 7. Vietnam FDI net inflow in percentage relation to GDP
Source: World Bank (2018a)

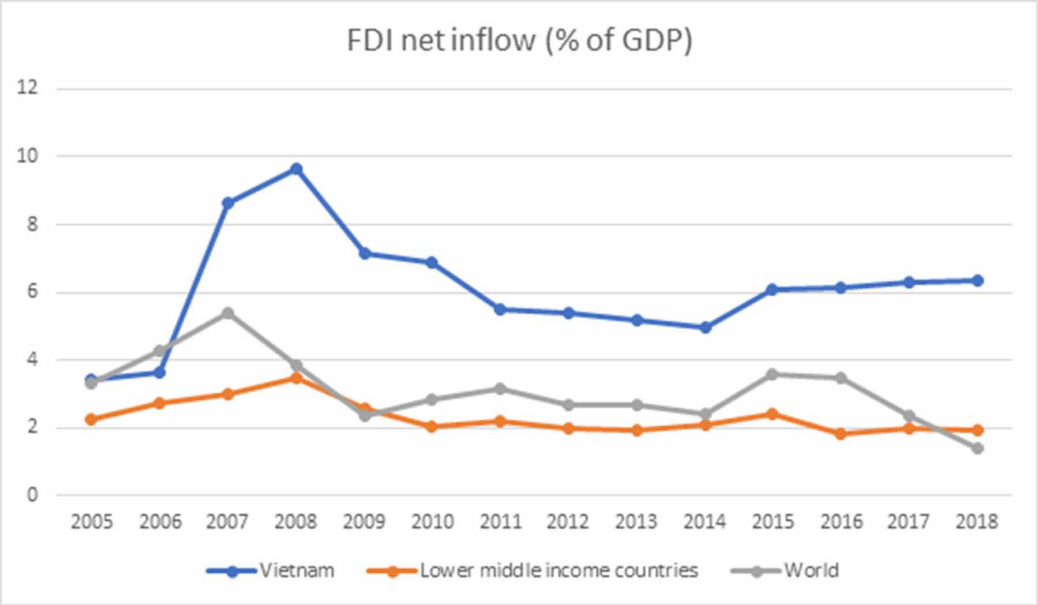
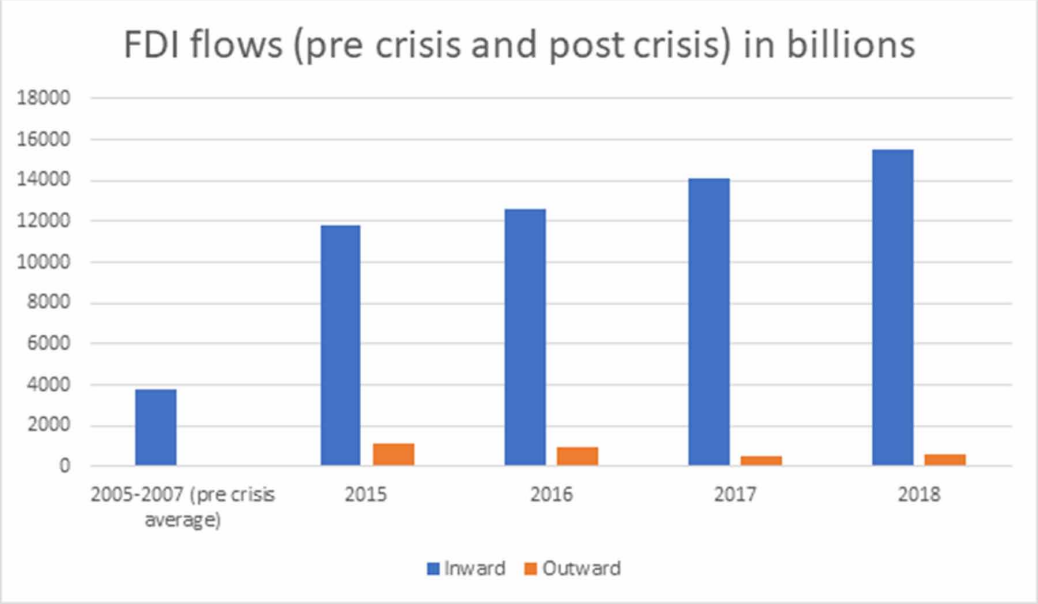


Figure 8. Vietnam FDI flows pre and post 2008 financial crisis
Source: UNCTAD (2019a)



Vietnam's labour-intensive industries have resulted in an increase in wages and standard of living as MNCs aim to exploit labour resources. MNCs invest in Vietnam to create low value-added products when compared to its direct competitors China and Indonesia (Ahmed, 2018). The country has also been successful in acquiring advanced technology which has enabled it to venture into creating high value-added products. FDI has also played an important role in GDP with FDI accounting for 70% of exports.

Vietnam, realizing the importance of FDI in its growth, has partnered with the World Bank to work on high value-added areas. The Ministry of Planning and Investment in collaboration with the World Bank aimed to draw a five-year strategy to lure investors into high-tech industries and forego their preferences for a labour-intensive industry (Ahmed, 2018). The World Bank has also published a book that outlines long term strategies to attract FDIs (World Bank, 2015). Vietnam is now also a part of the Comprehensive and Progressive Pacific Partnership through which FDIs would lead to higher wages, increased productivity and diversifying sectors (World Bank, 2018b).

Vietnam and GVCs

Over the years, Vietnam has made itself a niche in GVCs. The country is highly integrated in three industries: electronics, shoemaking and leather industries, and textile industry. The electronics industry is the biggest export-earner for Vietnam. Samsung – the single largest electronics investor in Vietnam – produces over 50% of its global smartphones in Vietnam. Other industry giants such as Intel (Mason, 2006) and Foxconn (Nguyen, 2018) are following suit. According to Herr et al. (2016), Vietnam is one of the biggest manufacturing hubs for mobiles, printers, and photocopy machines. The export of electronic goods – including mobile phones – stands at $75 billion (Mah, 2018). However, the value added by the country remains low as raw materials are imported worth $37.5 billion are imported into the country (Mah, 2018). The same is documented in Figure 9. Electronic companies invest in Vietnam due to low wages. This enables them to maximize their profits. Since the parts are imported (mainly from China or South Korea), companies mostly set up large factories where the pieces can be assembled (Herr et al., 2016).

With regards, to textiles, Herr et al. (2015), state that the textile sector in 2015 comprised over 5,000 companies of which 4,500 are sewing room, 500 weaving mills and 100 spinning mills. These companies produce over 1.4 billion tons of cloth and 3 billion ready-made clothes. The entire process involves using 5,000 tons of wool and 200,000 tons of yarn and fibres (Herr et al., 2016). In 2017, the textile industry exported products worth $25.9 billion (Mah, 2018). The country has outstripped China in terms of growth of share in exports and imports of textiles. This has been documented in Figure 10. However, the value added to the final product is low as the country imports fabrics worth $11.4 billion (Mah, 2018). According to WTO, Vietnam continues to be one of the top 5 exporters of clothing with 6.2% of global market share and adding around 32% of value of worldwide exported cloths (World Trade Organization, 2019).

The leather and shoe making industry also makes a significant contribution to Vietnam's exports. Vietnam is the world's third largest exporter of shoes and exports $7.4 billion worth of footwear products (Workman, 2020). A major contributing factor for growth is the export economy nature of Vietnam. This has prompted shoemakers like Nike and Adidas to move their factories from China to Vietnam (Bain, 2018). Low wages, incentives from government and a geographical advantage has prompted investors to invest in Vietnam. Furthermore, the Financial Trade Agreements (FTA) between India and Vietnam attracts investors as both countries aim to expand and upgrade the pact to deliver desired results (Press Trust of India, 2018).

Figure 9. Understanding exports and Imports as an indicator for FDI (Vietnam)
Source: Global Economy (2019b.); World Bank (2019c, 2019d,)

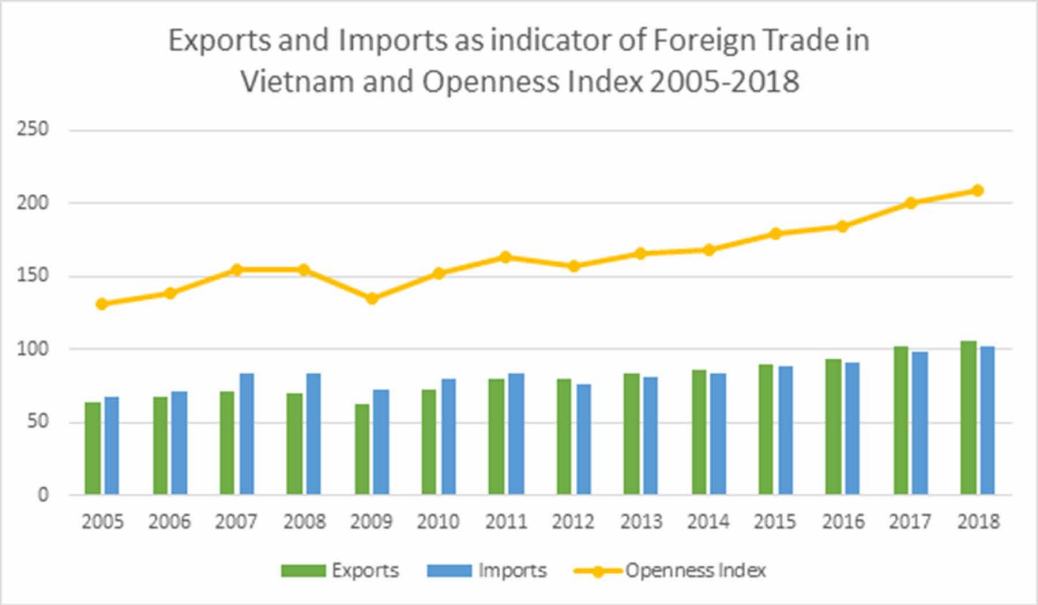
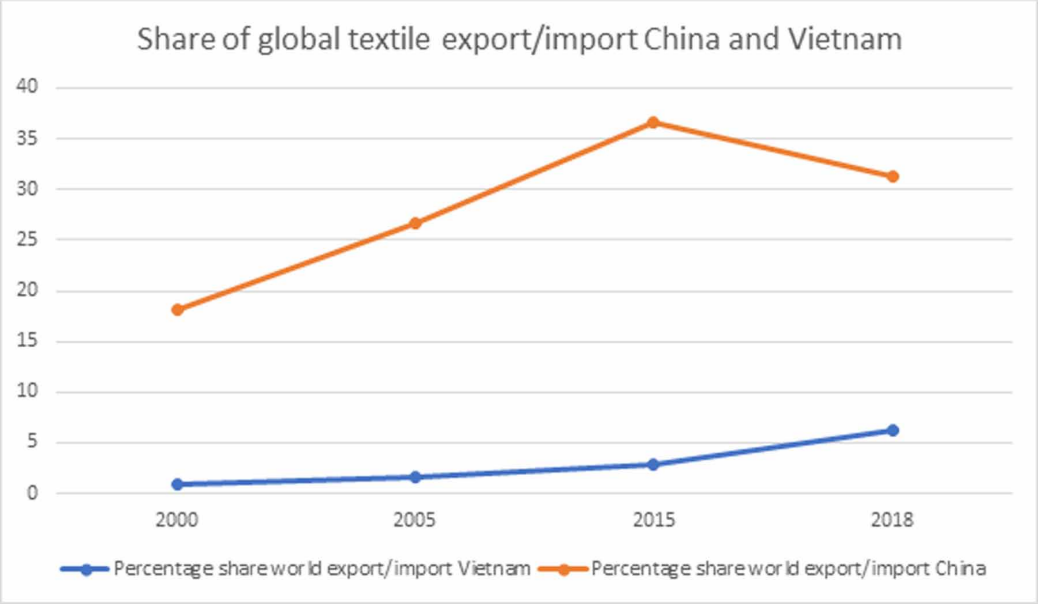


Figure 10. Share of global textile export/import China and Vietnam
Source: World Trade Organization (2019)



Despite being the 3rd largest exporter of leather and shoes, Vietnam is highly dependent on imported fabrics for shoes from China, South Korea, and Taiwan. Raw material costs of a typical leather shoe consist of 80% of the total cost of the finished product (Herr et al., 2015). Vietnamese companies mainly produce labels, laces etc and are unable to produce hooks, beads, eyelets and ornament designs on shoes. The unavailability of technology and possible reduction in profit margins deters Vietnamese companies in producing other components of shoes (Viet Nam News, 2015).

APPLYING ECLECTIC THEORY TO VIETNAM

Ownership Advantages

Vietnam has steadily worked to improve its business environment. The country has improved its ranking on World Bank's ease of Doing Business Report. The country has jumped from 78th position in 2015 to 70th in 2020 (World Bank, 2015; 2020). The government is consistently importing its ports, facilities for labourers in order to create a positive feedback loop for the economy (Das, 2019; Wright, 2019). Foreign companies are now allowed to acquire full ownership of local companies barring certain instances that could hinder Vietnam's international commitment. Local banks can receive up to 25% investment from a foreign company and have a maximum cap of 30% on overall foreign investment (Vietnam Insider, 2019). However, these caps can be waived on a case-to-case basis.

The government has also introduced new laws such as the Competition Law 2019 which replaces the 2004 law. The new law focuses on addressing market dominance, merger controls, removal of a prescriptive SSNIP Test to define relative product market (Hickin et al., 2019). The new law has expanded its scope and includes individuals, foreign companies, and domestic companies and has enabled the government over offshore activities of domestic companies if they affect the Vietnamese market. The government also permits foreign investors to form Limited Liability Companies, Joint-stock companies, and establish Partnerships with Vietnamese companies.

The Vietnamese government also allows foreign MNCs to set up branches, representative offices, Business Cooperation Contracts, and Public and Private Partnerships (Vietnamese Chamber of Commerce and Industry, 2019). The government also permits foreign participation in telecommunications and companies can engage in equity investment with limitations depending on sub-sector (Vietnam Insider, 2019). Vietnam also allows up to 70% share ownership of a private telecommunications firms and 49% in facility based basic services (Vietnam Insider, 2019).

Location Advantages

After the reunification of the Vietnamese government in 1975, the government enacted the Foreign Investment Law which took force after revisions. The *Doi Moi* policy significantly opened up the economy and, over time, foreign investment increased (Schaumburg-Müller, 2002). Current FDI policies in Vietnam is moving from social economy into an economy that aims to fully integrate itself with regional and global economies. The country aims to create firms that can compete internationally. The country has engaged in (FTAs) and worked with ASEAN to improve its economic gains (Schaumburg-Müller, 2002). These political decisions have attracted foreign investors to a country that witnesses an increase in labour force

as women join work (Preet, 2019). Investors are also attracted to the country as agricultural industries and public enterprises are expecting layoffs and demand for work is high.

Another significant factor Vietnam's geographical location in Asia. The country's is close to major Asian markets such as China, Hong Kong and India (Emerhub, 2017). Its long coastline provides it direct access to the South China Sea which sees an influx of ships giving it perfect conditions for trading. Ho Chin Minh and Hanoi have are densely populated and are provide favourable trading opportunities. Furthermore, the country has special economic zones which have attracted foreign projects worth $145 billion (Shira & Associates, 2019). Different parts of the country produce different advantages. For instance, talent and cheap labour means that technical based industries would find it fitting to invest in North Vietnam and South Vietnam while Central Vietnam is still developing. This translates into early mover advantage and receiving subsidies while investing in the region (Shira & Associates, 2019).

Internationalization Advantages

Cheap labour is the main advantage in Vietnam. Apart from manufacturing sector, Vietnam's IT sector has experienced vast development. The IT industry in Vietnam is driven by low costs and high-quality labour. The country is shifting its focus from a low-tech manufacturing economy to a service sector economy. As of 2019, it has become the 8th largest provider of IT services globally (Samuel, 2019). The IT sector has posted a revenue of over $43 billion (Dharmaraj, 2019) with investment in R&D from Samsung in Ho Chi Minh City (Nguyen, 2020). The country also has tax exemption, reduction for land rent and import tax exemption for raw materials used in manufacturing electronic equipment (VietanLaw, n.d.). This makes investing in Vietnam a lucrative option.

Business Process Outsourcing (BPOs) also have potential to attract FDI. They are slated to be a gamechanger for Vietnam as the industry can thrive on IT infrastructure in the country. The industry can tap into a workforce that welcomes 40,000 new ICT graduates every year (Van, 2018). Vietnam's uninterrupted growth of digital connectivity and market demands presents room for investors to exploit three sectors: domestic outsourcing, near-shore outsourcing and off-shore outsourcing. Van (2018) states that the country's geographical location, abundant workforce and stable governments that aims to exponentiate economic growth provides an apt scenario for investment.

Contrasts and Takeaways From the Case Studies

The data on FDI trends and Exports presented in Figure 4 and 6, and Figure 8 and 9 bring out stark and obvious differences. China is ahead of Vietnam significantly in the quantum of FDI investment. The differentiator here is the focus of the countries on technology. China is leaps and bounds ahead of Vietnam in terms of providing support to tertiary sectors. Also, in a globalized world where information is key to growth, china has created a suitable environment for outward FDI which is mainly dominated by business services. Conversely Vietnam is heavily focused on bringing in investment into the country. A major reason for this is the lack of development vis-à-vis China. By capitalizing on labour, Vietnam hopes to improve standard of livings and attract more manufacturing firms into the nation

One can also observer a steady rise in exports for Vietnam. This is accompanied by a fall in rank in the Openness Index. China, realizing the role of globalized economies has reduced its exports and instead increased imports. This has helped China in two ways. First, it signals to companies that China is willing to initiate steps to accept foreign products – something that the nation was averse to. Second,

it signals a commitment of leveraging co-dependency between nations to ensure better relationships between two nations. By doing so, China is able to diplomatically manoeuvre around South Asia. The nation has not only used FDI as an economic tool but also as a diplomatic tool.

China and Vietnam took different approaches to FDI. For China, FDI was undertaken in an experimental manner within select cities and states like Shanghai and Fujian. Vietnam on the other hand had to enact nationwide reforms owing to its small size. The changes in Vietnam were more prominent in the south. These changes were welcomed as it provided opportunities for private sectors to pursue growth. Both China and Vietnam have found that FDI enables economic growth albeit occurring over a long period (Freeman, 1994).

Despite the positives of FDIs, the socialist countries have also noticed an increase in smuggling and corruption which, although present in previous systems have become more prominent. This creates an opportunity for anti-national elements to rally support and try destabilizing the country (Freeman, 1994). An example of this is the infamous protests in Tiananmen Square in China. Unlike China, Hanoi has shown remarkably less signs of oscillation in protests and has documented steady economic performance as greater liberalization persists (UNCTAD, 2007). Furthermore, many investors consider Vietnam's policy choices as "genuine" and irreversible. This is mainly because Vietnam has not replicated China's stop-and-go concept which has led to a greater sense of trust between investors and the Vietnamese government vis-à-vis Chinese government (Freeman, 1994).

Ideologically, Vietnam and China are scouring texts of their ideological forefathers – Chairman Mao and Uncle Ho – that might justify the changes in socio-economic policies and the need to allow foreign investment in private companies (Freeman, 1994). Both nations are trying to reassure its citizens that the long-held tenets regarding socialism is not being abandoned. Hence, propaganda in the nations revolved around ideological baggage to conform new economic necessities (Boer & Li, 2015; Freeman, 1994, Rupasingha, 2011).

Both countries' communist governments have continuously rejected external and internal pressures for political reform. The countries have been successful in deterring the pressure and not giving in like ex-socialist bloc states and insist that "their selection of a ruling elite, within the party, can better serve the development of the country than a potentially destabilising shift towards political pluralism" (Freeman, 1994; p.77). Neither country has a tradition of democratic process and in some manner mimes the one-party power elites of economically successful nations like Singapore and Taiwan.

The sources of income for FDI in China and Vietnam are distinct and dictated by the restrictive international environment surrounding Vietnam. Hong Kong sourced FDI have been flooding the Chinese markets as they are motivated by cheap labour and notions of pre-1997 "bridge building" (Nossal, 2015, p. 89). Hong Kong FDI has played a crucial role in acting as a channel for FDI from firms in other countries such as Taiwan and South Korea (Min-Hua, 2016).

China's initial period of FDI up to end of 1993 saw major inflows from USA. During this period, USA and Japan ranked behind Hong Kong in terms of FDI inflows. The European Council's contribution to FDI in China's initial years were relatively small (Freeman, 1994). This is in stark contrast with Vietnam's initial years where USA firms invested in Vietnam through third party channels due to embargoes placed by USA on Vietnam. Nonetheless, these small investments made by American investors had to be approved by Washington. Capitalizing on this, European Council investors dominated FDI investment in Vietnam and tapped into Vietnam's natural oil and gas resources. Companies that made a footfall in Vietnam included British Petroleum, Total and Shell Enterprise (Reuters, 1992; UK Trade and Investment, n.d.).

The clear attraction for foreign multinationals to invest in China is the size of labour force. Investors are able to envisage billion potential customers in an oligopolistic fashion. As of 2017, countries such as Hong Kong, Japan, Singapore, and Taiwan have been attracted to the proximate labour force (Freeman, 1994). The improvement in education system with Peking University being one of the leading education institutes in the world has also attracted R&D investment (Mickle, 2017). Similar to Vietnam, investors were attracted to China oil reserves and one of the reasons why China experienced disappointing FDI figures in 1990s was because companies were more focused on tapping into Chinese markets than using FDI for exports (Freeman, 1994). Vietnam did not face this because the market size of Vietnam is small. The criteria that attracted FDI to Vietnam was geostrategic location, a strong workforce with considerable work ethics and Hanoi's liberal laws.

The first takeaway with regards to the Chinese case is its overdependence on a particular nation. The Chinese economy is highly dependent on the American economy and investments. Developed nations are becoming more hostile to FDIs and are aiming to foster domestic companies. China is now focusing highly on outward FDIs as developing nations become more lucrative and offer better options to companies. The trade restrictions also tend to be stricter in China and it is more prone to economic tensions owing to its political ideology.

The second takeaway is the role of tax. New rules have garnered intense criticism from corporates in China. Foreign companies in China have been facing challenging framework conditions. For instance, companies face limitations market access and has insufficient intellectual property rights (European Union, 2019). These regulators have also been using export performance requirements to prompt foreign investments to integrate the affiliates into the host country (Kumar, 2003). Ironically, these countries are at the helm of investment in developing nations and aim to bypass performance requirements.

In case of Vietnam, the success with GVCs is highly dependent on FDIs. The economy is mostly based on efficiency seeking foreign firms that seek to identify and use distinct parts of their production process in low cost locations. This makes the country vulnerable to international market shocks. The government must, at a certain point in future, aim to mimic the Canadian model where focus is placed on innovation and making local companies more competitive, and take advantage of Vietnam's participation in GVCs.

A prominent difference between the two nations in terms of FDIs is their stand on patent policies. Technology transfers become more difficult in nations like Vietnam where there is virtually no IPRs. If Vietnam wants to see a boost in GDP, it should play on its strengths whilst simultaneously creating a policy that requires MNCs to shift some of their R&D activities to Vietnam. The country should also increase and define patent protection policies which would attract more technology intensive industries.[1]

Finally, another prominent difference between China and Vietnam is the bureaucracy involved in FDI processing. Vietnam ranks 67th of 141 nations due to poor bureaucracy, poor transport infrastructure, and difficulty in accessing finance (Schwab, 2019). The nation also has high administrative requirements which makes it longer to start a business. Conversely, Canada ranks 28th owing to an increase in innovation capability and size of its market (Schwab, 2019).

CONCLUSION

This chapter has analysed the role of FDI in advancing the economies of countries. It has analysed two nations: China and Vietnam. Though ruled by Communism, their response to FDIs have been different. These differences have resulted in different impacts. Chinese economy seems to have benefitted more

than Vietnamese. However, a point of similarity is that both nations are above the upper middle-class average income group. The two case studies cannot generalize the entire developing nations' circumstances to engage in FDI policies. Researchers should not mix data and programs which are targeted at domestic market with data and programs based on export-oriented markets. Future research can focus on FDI as a difference-in-difference study to understand the true impact of FDI. Current literature on FDI as reviewed while researching for this paper points at a trend where scholars choose to compare nations which are FDI-heavy with nations that barely use FDI. A possible area for future study would be to understand how FDI allows a host nation to create a completely new activity that would garner more investment and understand the absorption levels of FDI in middle-income nations.

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Chapter 15
The Effects of Globalization on Turkish Public Financial Management and Budget Process

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ABSTRACT

The effects of globalization in the economic, political, and social life have deeply changed the roles of states, and in this process of change, the new management approach has become a current issue within public financial management. Some important principles such as fiscal transparency, accountability, efficiency, effectiveness, and economy have been given importance in the public sector, and middle-terms budgeting, strategic planning, performance management, performance indicators, annual reports, analytical budget classification have become to be implemented in the performance-based budgeting system. The authors have examined the innovations by globalization in the Turkish public sector and analysed the effects of changes with the adoption of Law No: 5018 in terms of Turkish public financial management. It has been mandatory that all Turkish administrations under the general government take attention to the regulations accepted in Law No: 5018. When evaluated from a positive perspective, public administrations in Turkey have got more managerial responsibility in their operations.

INTRODUCTION

World-wide market relations caused by globalization have differentiated states' views on the economy. Because governments could not take advantage of the opportunities brought by the market, they were criticized for not being able to make effective and rapid decisions on strategic issues. However, it has

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become a general demand of governments to use public resources efficiently by adopting new technologies to harmonize the structure of public administration with global competition (Sahin, 2007). Increasing international competition and political developments with the globalization process led to rethinking the role of the state. Also globalization and its effects; has forced the countries to make administrative reforms in every country to restructure the state and become competitive with other countries internationally (Inans, Guner and Sarisoy, 2007). All these reasons have led states to change public administration systems not only to sustain their existence, but also to compete and develop.

In the new global economic environment, countries have had the need to replace their old protective policies and institutions with methods that will make them more competitive and effective. Restructuring of public administration, also called state reform or public sector reform has come to the forefront as one of the main topics of countries' agenda. Many countries saw the restructuring of public administration as a necessity to adapt to the globalizing world and increasing competition. Especially after 1990, in the quest's framework to adapt to global competition, restructuring efforts in public administration have been brought to the agenda in many countries (Bilgin, 2005).

While all these developments in the international arena affect public administrations to act swiftly, many international organizations such as IMF, OECD and the World Bank have also supported public administration reform in different ways. This international impact also led to the expansion of public financial management reforms. In addition, successful reforms in various countries have pushed other countries into an effort to change their management systems (Sahin, 2007). In this process, especially in many OECD countries, reforms were carried out in public administration. During the restructuring process; although the countries targeted the transition to different management because of political, cultural and administrative differences, the basic standards and general trends in restructuring have been similar. Elements such as a citizen-oriented bureaucratic understanding, participation, transparency, accountability, being effective and efficient, strengthening the strategic dimension, highlighting decentralization and flexibility applying market-based modern management techniques, management structures based on results and performance, worldwide, it can be cited as an example of the similar aspects of implemented public administration reforms (Bilgin, 2005).

Turkey also could not stay out of this process. Restructuring efforts in public administration have become one of the main areas of discussion in our country that started in the 1990s and continued in the early 2000s. The agenda of public administration reforms in Turkey to enter the study, other factors besides global developments have also been effective. These factors can be exemplified by the severe economic crises we experienced and the corruption events that shook the public (Bilgin, 2005). The main purpose of the research, globalization, is to work together to reveal the effects of globalization on the restructuring of public financial management in Turkey. For this purpose, in the research; first of all, globalization and the new public administration approach were explained. Then, the effects of globalization on public financial management are examined. In the last part of the research, the effects of globalization on Turkish public financial management; with the Public Financial Management and Control Law No: 5018, changes and developments in the budget process are analysed by considering them.

GLOBALIZATION AND NEW PUBLIC MANAGEMENT APPROACH

Globalization refers to a continuing process with a dynamic structure that includes many dimensions (economic, technological, cultural, political etc). In this process, economic, social, technological, cultural,

political, ecological integration and solidarity among countries increased. Along with globalization, there were economic, political, social and cultural similarities in the social structure. This situation also led to the questioning of the existence of nation states. But the existence of nation states is an essential element for social life. Because the main foundation purpose of nation states is to provide and protect law and order. This main purpose causes the existence of states in every period. The changes in the world economy in the historical process forced the state administrations to some changes.

The general and decisive trend in the world economy in the post Second World War period is in line with integrating productive forces and capital. While this situation enabled multinational companies to dominate the economy throughout the world, it caused the power of national states to implement an efficient and effective policy in economic-policy implementation (Ozturk, 2002). In addition, the public expenditures, which increased after the Second World War, were financed by the state borrowing method. In parallel with this situation, constantly growing state structures have emerged.

By the 1970s, an economic downturn was introduced and the budget deficits that became permanent put the states at a deadlock. This situation has led state administrations to restructuring one after the other with the effect of globalization. This chain of causes, as the architect of the new public administration approach in the 1980s, allowed the downsizing of the state (privatizations), liberal policies to come to the force and the transition from the strict hierarchy to localization that existed in the classical approach. Although these are the main factors; the reasons such as the increase in international competition and the start of a discussion of the duties and functions of the state also supported the main reason. The chain of causes in the transition phase from classical management to New Public Management; technological developments, industrialization, urbanization, rapid population growth, war and political transformations etc. it can be sorted.

Public administration, which took shape over a century, under the influence of many factors such as technological developments, industrialization, urbanization, rapid population growth, war and political transformations; its peak to affect social conditions and daily life especially in the 20th century. In this period, which can be characterized as the age of public administration or public service, the structure of the public has grown and its functions have been highly diversified. However, because of this growth process; Stationery, constant need for additional financing, difficulties in preventing cumbersome and uncoordinated structure in a growing structure. Besides these specific problems of the public, changes in the thinking patterns in the environment in which traditional public administration developed, brought up a radical paradigm shift in public administration as the 21st century (T. R. Prime Ministry, 2003).

The discussions seen in this process differed slightly from the discussions of the previous period. Even if the public sector was shrunk, an answer was sought under which conditions the public sector could be better managed. In addition, the focus of shrank public sector is on how to manage effectively. On the other hand, it has been understood the importance of providing public services to the required extent, at least as effectively and efficiently as the past. Because the resources allocated to the public sector have become more limited compared to previous years. This has forced government administrations to investigate new practices, structures, techniques and a system of ideas that are more suited to the public sector reality. Under these conditions, values, structures and public sectors have profoundly affected the developments in the world. The structure comprising price-based, non-bureaucratic, market-originated and customer-preferred public services has been seen as the most ideal system to be installed. In addition, the provision of public service conditions with efficient structures and skilled managers in line with the efficiency criteria expected by customers has emerged as a new theme in approaches to public administration. This new approach has been named as New Public Management in the literature (Ozer,

2002). In this environment where the new public administration approach and practices were shaped, public administration in the 21st century (T.R.Prime Ministry, 2003):

- To be transparent,
- To be a participant,
- To be accountable,
- To be effective and efficient,
- To respect human rights and freedoms,
- Based on law to reduce uncertainty and discrimination,
- It required to be predictable, flexible and fast.

It is seen that new public management has a change in structure that includes highly complex and interdependent elements. Because "one gear causes, other gears to turn". Change is continuous and understanding includes organizational structures that are process origin and can change. Here, efficiency and efficiency criteria are given importance, and technology is used at the highest level in the solution of organizational problems. However, the opinion that it is one of the main causes of management problems rather than the solution of technology is also questioned. Strategies such as holding more than rowing, empowering more than serving, changing market processes with bureaucratic processes, meeting the needs of customers, not bureaucracy, gaining more measures than treatment, moving away from the hierarchy of participation and teamwork, are the elements (Ozer, 2002). The understanding of new public management can be compared to a caftan erected to sustain the existence of public administration, which has to change its shell with the benefits of globalization to the private sector.

THE GENERAL EFFECTS OF GLOBALIZATION ON PUBLIC FINANCIAL MANAGEMENT

Since the 1980s, the changes have occurred on the duties, role, and functions of the state by the effects globalization and Neo-liberal policies (Siverekli Demircan, 2006), and several developments have happened such as governance, e-government, privatization, new public service approach and understanding of new public management (Gokus, 2010). Thus, some tools such as decentralization in the decision-making process, performance agreements, gaining importance of the activities' results, and acceptance of market-type financing mechanisms, human resources management, and strategic management have been preferred in the public sector (Schmidt, 2011).

The understanding of new public management aims which are the adaptation of private-sector plans and income-oriented objectives to the public sector, benefiting from introductory and guiding guides, being moved away from central control as much as possible, the preferring market practices as users pay, the developing flexible working and payment arrangements, and the providing social equality in public services by targeting to be a focus on the needs of consumers (Ozer, 2002). The three processes in the adoption of understanding of new public financial are valid: (i) State's role on the economy has changed by privatizations and public-private partnerships. (ii) The generating of independent institutions, and/or the performance management approach to performance metrics have been applied. (iii) Public accounting and budget systems have been shaped by methods accrual-based accounting and performance-based budgeting (Durmaz, 2010).

Behind the relevant approach, there is the minimization of public activities, the separation of management and production of public services, using market-oriented mechanisms, and the arbitration role of the state (Eryılmaz, 2008). Besides the responsibilities for both of states and citizens are valid in the new public management approach in which states have organic structures instead of mechanic structures, and attending of citizens in the processes of budgeting and auditing. Governments have to set up a transparent, understandable and traceable information network about their services and transactions are done (Uysal Sahin, 2014). The principle of responsibility towards the public has been adopted. (Gokus, 2010). Therefore, to follow in terms of both financial transparency, and to have correct and complete information about the evaluation of citizens, it is important that citizens can reach budget info, performance indicators, and other public info easily, understandable and on time (Koc, 2017).

Between the novelties in terms of public finance; a consumer-oriented understanding, the control of outputs, using performance, the comparison of performances of past and future, more responsible staffs, budget discipline (Komurculer, 2011), performance management, fiscal discipline, fiscal transparency, multi-year budgeting, implementing of fiscal planning of middle and long terms, efficiency in resource allocation and use, the spending efficiently and without wasting (Siverekli Demircan, 2006), the controls after spending, and accountability (Eker, 2009), attaching importance to internal and external audit, preparation of strategic plan, performance program and annual report, and accrual-based system are involved.

In the late 1980s, new public administration practices in the public sector gained speed in developed countries, especially in Anglo-Saxon lands such as the United States, England, New Zealand, Australia where serious reforms were experienced in public administration (Tek Turan, 2013). Because the searches for efficiency and productivity in the public sector have turned an understanding which is based on market logic in these countries (Komurculer, 2011). Then the relevant reforms have become widespread in the north countries such as Sweden, Finland, and Continental Europe counties such as France, Holland (Durmaz, 2010). Therefore, the Financial Responsibility Laws have been given importance in particularly Anglo-Saxon countries, and most countries have accepted fiscal responsibility laws to increase the credibility, accuracy, and transparency of fiscal policy. Fiscal responsibility laws are a combination of needed rules and regulations to suppress public deficits, ensure fiscal discipline and strengthen transparency and budget management. (Qasım and Khalid, 2012).

Turkey involved in this process, and the model of Anglo-Saxon public finance management was appropriated by being accepted Public Financial Management and Control Law No: 5018 in 2003. The main elements of Law No: 5018 are accountability, using public resources as economic, efficient, and effective, strategic planning, performance-based budgeting, multi-year budgeting, financial transparency, accrual-based accounting system, reporting of accountability reports and financial statistics, internal control, internal and external audit (Kesik and Kıral, 2012).

The Effects of Globalization on Turkish Public Financial Management

The Public Financial Management and Control Law No: 5018, which configures the Turkish public financial management system in line with international standards, was published in the Official Gazette dated 24.12.2003 and numbered 25326, and come into force with all its articles since 2006 (Grand National Assembly of Turkey, 2006). Law No: 5018 gives importance that all responsible officers give an account in using sources lawful, efficiently, economically and effectively to especially public and authorities (Demirbas and Cetinkaya, 2018). In the 3rd article of the Law No: 5018, public financial management is identified as:

Public financial management: refers to legal and administrative systems and processes that will ensure the effective, economic and efficient utilization of public resources in accordance with defined standards.

The main reason for revising public management in Turkey is installing an economic structure that is adaptable to the European Union (Ener and Siverekli Demircan, 2007). To reach international standards, Law No: 5018 has many important changes in Turkish public sector (Sahin, 2010). The novelties such as fiscal transparency, accountability, fiscal discipline, strategic planning and performance-based budgeting, multi-year budgeting are evaluated among the most important tools which explain the transformation in a managerial sense brought by Law No: 5018 to the Turkish public financial management (Komurculer, 2011). An effective, efficient and economic management approach compatible with the new management understanding is on the basis for regulating such as being expanded the context of the public budget, accepting performance-based budgeting based on multi-year planning, accountability, transparency (Soyler, 2012). Under mentioned improvements, in the 1rd article of the Law No: 5018:

The purpose of this Law is to regulate the structure and functioning of the public financial management, the preparation and implementation of the public budgets, the accounting and reporting of all financial transactions, and financial control **in line with the politics and objectives covered in the development plans and programs***, in order to ensure accountability, transparency and* **the effective, economic and efficient** *collection and utilization of public resources.*

Law No: 5018 covers the use of European Union funds, and resources provided to domestic and foreign public administrations to all public agencies in the context under general management provided that international agreements are reserved (Onen and Ozmen, 2009).

The Changes and Developments in the State Budget With the Adoption of Public Financial Management and Control Law No: 5018

As previously described, Law No: 5018 is recognized as a major reform movement in Turkish public financial management, and changes have caused radical novelties on the Turkish state budget. Therefore, the budget types have identified and categorized according to international standards. The annexed budget was abolished, and the annexed budget administrations have been evaluated in the context of the administration of the general budget or special budget according to the status of administrative and fiscal (Sahin, 2010). In this part of study, all changes will be explained in order.

Fiscal Transparency

The principle of fiscal transparency is identified as the sharing government structure, functions, public sector accounts, fiscal policy plans, and fiscal targets with the public. The international standards were established on how to provide fiscal transparency by the International Money Fund (IMF). For that purpose, the Code of Good Practices on Fiscal Transparency was accepted, and it aimed to evaluate fiscal sustainability by got data in long term correctly and to provide producing enough info about extra-budgetary activities and contingent liabilities for an effective budget in short term (Kızıltas, 2007).

Among the regulations that provide fiscal transparency by Law No: 5018, there are (i) to include to the budget all income and expenditures, (ii) to budget excluding law, (iii) to prepare strategic plans, (iv)

to generate public accounts and fiscal statistics and to share to the public, (v) to inform the competent authorities and public administrations by preparing final account and accountability report (Sahin, 2010). As determined in the 1st article of Law No: 5018, providing fiscal transparency is among the law among. Besides, the provisions are that in the 7th article

In order to ensure supervision in the acquisition and utilization of all types of public resources, the public shall be informed timely.", and in 13th article "Clearness, accuracy and fiscal transparency are essential for budget revenue and expenditure estimations and for reporting of implementation results.

In 30th article of law, the provision has been determined that administrations within the general government shall announce the implementation results of their budgets for the first six months and their expectations, objectives, and activities regarding the second six months, and also the Republic President shall announce the implementation results of first six months of the central government budget law, the financing condition, expectations and objectives regarding the second six months and the financial condition comprising the activities to the public in July.

Accountability

Accountability means that responsible staffs are in charge of public administrations and financial management account to the public, senior executives, the audit agency and the parliament about their decisions and implementations related to the acquiring, managing and using of public resources (Kesik and Kiral, 2012). In the 1st article of Law No: 5018, the accountability principle is highlighted while describing the aims of the law. Besides in the 8th article, accountability is identified comprehensively:

Those who are assigned duties and vested with authorities for the acquisition and utilization of public resources of all kind are accountable vis-à-vis the authorized bodies and responsible for the effective, economic and efficient acquisition, utilization, accounting and reporting of the resources on the basis of law, as well as for taking necessary measures to prevent the abuse of such resources.

Thus, it has been as obligatory that responsible official informs the public at certain intervals. It is emphasized in the article 5th article that public finances are applied in a way that enables public officials to be accountable. Also in the 11th article, the accountability of administrators is identified comprehensively under the part of "*the Accountability of Ministers and Heads of Public Administrations*". According to this part, it is expressed that the heads of public administrations are responsible for the preparation and implementation of the strategic plans and budgets of their administration in conformity with the development plan, annual programs, the strategic plan, performance objectives, and service requirements. In the article's continuation, it is explained that while using public sources, the necessities of the principle of economy, efficiency, and effectiveness have to be taken care too. In the 4th article of the Law, it is highlighted that the main reason for preparing the annual reports is the accountability principle.

Not only the provisions in the articles of 1st, 3rd, 8th, 9th, 10th, 11th, 41th, 55th, 56th, 57th, and 63th include fiscal responsibilities, but also they include administrative responsibilities. Related provisions show that financial management and control should be thought of as an administrative system, rather than it is noticed of only a fiscal system (Kesik, 2012a).

Fiscal Discipline

Another effect of new fiscal understanding on Turkish public management is fiscal discipline. Fiscal discipline refers that the equivalence between public revenues and expenditures, and the designing of the financing balance of the public sector without causing macroeconomic problems (Kantarci, 2005). Nowadays, fiscal discipline does not mean strict budget equivalence; it requires the state's financial status to be sustainable, including the years ahead of the annual budget period (Demirbas and Cetinkaya, 2018). In Law No: 5018, it is seen that the fiscal discipline is given importance. In the 5th article of the Law, the expression which is "public financial management provides fiscal discipline" is included among the principles of public finance.

In order to implement fiscal discipline, determining the fiscal rules previously has to be (Kesik, 2012b). In the 17th of Law No: 5018, in preparing revenue and expenditure proposals of the central administration budget, some provisions include the issues related to fiscal rules which have to be considered. These are:

Basic figures, principles and basis determined in the Medium-Term Program and Medium-Term Fiscal Plan, b) Appropriation ceilings determined in the framework of strategic plans of the administration, and priorities of development plan and annual program, c) Multi-year budgetary framework consistent with strategic plans of public administrations, d) Performance objectives of the administration.

With the adoption of Law No: 5018, the understanding of multi-year budgeting, medium-term program (new economic program), middle-term fiscal plan, and the determining of economic and fiscal targets are tools that developed to provide fiscal discipline.

Performance-Based Budgeting Based on Strategic Planning

Because of the seeking of fiscal discipline, the budget implementation and policies have changed in both developed countries and developing countries. Performance-based budgeting has been preferred in general management in most countries including Turkey. Performance-based budgeting is a new budgeting method which focuses on the establishment of fiscal discipline and the outcomes got by public institutions (Sahin, 2014). This method, which provides the balance between services targeted and sources in public administrations, and also shows what extend targets have been achieved, has been focused on the aim of providing effectiveness in public services while including tools such as strategic plan, measurement-evaluation, input-output, efficiency, and results (Siverekli Demircan, 2006). In the 3rd article of Law No: 5018, strategic plan is defined:

Strategic plan refers to the plan which includes medium and long term goals, basic principles and policies, objectives and priorities and performance indicators of public administrations, as well as the methods and the resource distribution to achieve these." In the 9th article, there is the expression that "Public administrations shall **prepare strategic plans** *in a cooperative manner in order to form missions and visions for future within the framework of development plans, programs, relevant legislation and basic principles adopted; to determine strategic goals and measurable objectives; to measure their performances according to the predetermined indicators, and to monitor and evaluate this overall process.*

In the continuation of the relevant article, it is expressed that public administrations should base their budgets, resource allocations on a program and project basis, on the strategic plan, annual objectives and targets and performance indicators, and mission, vision, strategic aims, and targets should be the priority, and also, they shall prepare their budgets based on performance. With the new budget system, great importance has been attached to measuring performance in public administrations, and performance indicators have been included in the strategic plans of public administrations to measure performance. In addition, performance audits are conducted over the indicators (Komurculer, 2011). The model of performance-based budgeting has a triple structure with Law No: 5018. The first one is the preparing middle, and long-term plans. The second one is preparing annual performance programs that include the annual implementations of strategic plans and form the basis of the budget. The last one is preparing the annual report that includes the results of conducted activities under the performance program (Sahin, 2010).

Analytical Budget System (ABS) and Multi-Annual Budgeting

According to Law No: 5018, the complementary elements of the performance-based budgeting system are multi-year budgeting, accrual-based accounting system and analytical budget classification (ABS) (Sahin, 2010). With ABS, it is aimed those: (i) Preparing and implementing budget, (ii) Planning and following budget results comprehensively and systematic, (ii) Evaluating of budgeting (iv) Following services by public administrations, (v) Following finance resources and costs, (vi) Following the targets and results of the programme (Siverekli Demircan, 2005). In the context of ABS, four types of classification as corporate, economic, functional and financing are based. Thus, analysing the effects of public expenditures on economic operations is possible, and making international comparisons is ensured (Tugen, 2019). Besides, ABS is seen as an important step to provide a performance audits (Siverekli Demircan, 2006).

Around the World, public financial reforms are classified as ensuring fiscal discipline, accountability, resource allocation and efficiency, fiscal transparency. In this sense, medium-term spending systems or multi-year budgeting, and medium-term resource allocation have been begun to be implemented (Kesik, 2012a). While in past practices, budget revenues and expenditures were estimated for one year, revenues and expenditures of more years than one have been estimated with multi-years budgeting (Edizdogan and Cetinkaya, 2012). Multi-year budgeting is a concept developed with the performance budget concept and integrated with the strategic plan (Komurculer, 2011). In the narrow sense, it means the budget that determines the revenues and allowance amount in the multi-year period of the annual budget process, and in broad terms, it is defined as a budget technique that provides multi-year revenues and expenditure estimates and supports a policy-plan-budget connection (Mutluer, Oner and Kesik, 2005). To achieve this, the medium-term program and medium-term financial plan which are two important financial documents in the budget preparation process have to be prepared, and in preparing their budget proposals, public administrations have to take attention to the goals and standards that exist in these two documents. (Sahin, 2010). In Turkey, multi-years budgeting has been implemented since 2006 under the analytical budget classification. The aim is to use resources effectively and efficiently by applying the medium-term spending system (Edizdogan and Cetinkaya, 2012). In the 14th article of Law No: 5018:

Public administrations within the scope of central government shall calculate the financial burden that will be resulted from law drafts which will cause a decrease in the public revenues or an increase in the

public expenditures and put public administrations under obligation (…) within the framework of the medium term program and the fiscal plan for a period of minimum three years and add it to the drafts. Actuarial calculations of minimum twenty years shall be included in the law drafts of social security.

In the relevant article, it is stated that public administrations should make an estimate to cover the next two years while preparing their budget proposals for the next year. Also 17th article, it is explained that public administrations will consider the multi-year budgeting approach in line with their strategic plans in preparing revenue and expenditure proposals.

Accrual-Based Accounting System

With Law No: 5018, it is aimed to provide public accounting unity. Thus it is accepted that all public institutions in the general's context administration should use the same accounting system, and the accounts of public revenues and expenditure should be processed of accounting records according to accrual-based (Sahin, 2010). The cash basis of the accounting system was applied in public financial management when the General Accounting Law No: 1050, which was in force before Law No: 5018, was applied. According to the cash basis of the accounting system, revenues were being proceed of accounting records when they were collected, and expenditures were being proceed of accounting records when they were allocated. With the acceptance of Law No: 5018, accrual-based accounting system that is evaluated as the system of modern state accounting has been adopted. With implementing the accrual-based accounting system, the shifts in the fiscal year data have been minimal and the statistical data of the institutions have become more meaningful (Oz and Kaplan, 2005). In the 50th article of Law No: 5018, it is stated:

An economic value shall be booked when it is produced, transformed, exchanged, transferred or terminated. It is mandatory that all financial transactions are booked, and all accounting records are based on documents". In the 51st article "Public revenues and expenditures shall be indicated in the accounts of the fiscal year of their accrual. Budget revenues shall be booked in the year of collection and budget expenditures in the year of payment.

Audit

One another change with the adoption of Law No: 5018 is regarding audit (control) scope. In the relevant law, the control has been divided on three stages those are (i) Internal control, (ii) External Audit and (iii) Audit by The Turkish National Assembly (Demirbas and Cetinkaya, 2018). Thus new duties and responsibilities have been defined to establish the balance of authority and responsibility in public financial management. In terms of internal control, the assignments of ex-ante control and ex-post control have been transferred to public administrations, and it has aimed that necessary flexibilities shall be given to public administrations (Sahin, 2010). The definition, objective, structure, and functioning of internal control have been explained in the articles of 55th, 56th, and 57th while internal control has been identified in the 5th article. In this scope, it is emphasized that the financial management and control systems of public administrations comprise spending units, accounting, and financial services, ex-ante control and internal audit.

During the General Accounting Law No: 1050 was in force, ex-ante fiscal control was being implemented by accountants in the Ministry of Finance, the Court of Account (SAI), and official administrative units. With Law No: 5018, the duty of ex-ante fiscal control of SAI has been abolished (Onen and Ozmen, 2009). Besides, all authorities and responsibilities regarding internal control have been shared among the head of public administration, the allowing officials, financial services unit, accounting officers and realization officers (Demirbas and Cetinkaya, 2018). The internal control structure of a public administration in the context of the general government has been divided as financial service units, ex-ante control, spending units, and internal audit.

In the 58th article, it is stated that *"Ex ante financial control covers the controls performed during the realization of the procedures in the spending units and the controls performed by the financial services unit."* Besides ex-ante control, internal audit has been accepted as an extension of internal control process, and internal auditors have been assigned in public administrations to provide ex-post internal audits. Thus auditors working in public administrations have been held responsible for internal audit. In the articles between 63th and 67th of the relevant law, comprehensive explanations have been about the internal audit process and the Internal Audit Coordination Board. In the 63th article:

Internal audit is an activity of providing independent and objective assurance and consultancy, performed in order to improve and add value to the activities of the public administrations by evaluating whether the resources are managed in conformity with the principles of economy, effectiveness and efficiency, and by providing guidance. Such activities are performed with a systematic, regular and disciplined approach and in accordance with generally accepted standards, aiming to evaluate and improve the efficiency of risk management and of management and control processes on the management and control structures and financial transactions of administrations.

When evaluated in terms of external audit, the scope of the SAI has been extended, and all public administrations in the general government have subjected to the external audit of SAI (Sahin, 2010). In the 68th article of the relevant law, the duties and authorities of SAI have been defined, the ex-post control of SAI has been abolished, and it has been realized that SAI is responsible for the only ex-post audit. Besides, the regulations regarding the duties, authorities, responsibilities and organizational structure of the Court of Accounts were regulated with the Turkish Court of Accounts Law No: 6085 accepted in 2010. SAI has been transformed into an external audit unit that reports more to the Turkish National Assembly (Demirbas and Cetinkaya, 2018).

CONCLUSION

Globalization caused important changes in state understanding, and the economic role of the state has reshaped. With this changing process, the new administration approach in public financial management has become a current issue. In this process, named as the new public administration, the terms as transparency, accountability, and governance have come into prominence. Thus besides the flow of information, technology, and capital, innovations in public financial management and fiscal responsibility have increased the transition between countries.

Turkey has affected by these developments, and restructuring works have increased in the Turkish public financial management field since the beginning of the 2000s. These structuring efforts are under the guidance of international organizations, and they also include important contributions to overcome the deficiencies in the existing structure. In time periods when the General Accounting Law No: 1050 was being implemented, the Continental Europe Model was valid in the Turkish public financial management. However, the Anglo-Saxon model has launched in public management with the adoption of Law No: 5018 since 2003. In this context, internal control has been adopted in the framework of Chapter 32 by European Union. Thus internal control has been left the responsibility of public administrators and administrations to provide the use of resources effectively, efficiently and economically, and accountability. Besides, several important changes have occurred such as being internal audit as a part of internal control, the acceptance of the SAI as the only external audit unit, the focusing on ex-post audit of SAI, the being responsibilities of public administrations in ex-ante fiscal control rather than Financial Ministry.

Strategic planning, performance budget, performance program, annual report, multi-years budgeting understanding, analytic budget system have become to be implemented in terms of the new budget system. These novelties/changings are the samples of financial rules in fiscal literatucy. In order to support the fiscal discipline, performance-based budgeting, the principles of transparency and accountability, the multi-year budgeting, medium-term program, middle-term fiscal plan, and the acceptance of a number of rules in budgeting cycle have been recognised as non-numerical financial rules. In this way, those have been accepted mandatory rules in the budgeting process for Turkish public institutions: (i) Determining five-years strategic goals, strategic goals, performance goals, performance indicators, and also determining one-year performance goals and performance indicators (ii) Sharing the year-end activities of the executives with the public has become mandatory because of the principles of financial transparency, and accountability. In conclusion, by following international development closely, Turkey has been in the harmonization process, and radical changes experienced within the framework of fiscal responsibility law.

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Chapter 16
The Effects of Globalization on Public Expenditures, Tax Revenues, and Public Debt: An Empirical Evidence From the European Countries

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ABSTRACT

Globalization is a process that transcends national borders, integrates national economies, cultures, technologies, governance and generates complex affairs with interdependence. Considering the emergence of globalization, the way it spreads and its impact areas, economic, financial, political, cultural, technological, geographical, sociological, and ecological aspects are mentioned. In this study, the effect of globalization on public expenditures, tax revenues and public debt in 1995-2017 period for EU countries was investigated within the framework of compensation and efficiency hypotheses. Analysis results indicate that globalization has a negative effect on public expenditures, but a positive effect on tax revenues. Study results analyzing the effects of globalization in EU countries favour the efficiency hypothesis in terms of public expenditures and the compensation hypothesis in terms of tax revenues. In addition, although panel cointegration tests indicate a long-term relationship between globalization and public debt in EU countries, long-term coefficients are not statistically significant.

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INTRODUCTION

Globalization is a process which includes economic, technological, social, cultural, political, and commercial integration around the world and generates international affairs depending on interdependence. Labor mobility, capital mobility and dissemination in information and communication are among the outstanding features of globalization. Globalization is not only an effective process on domestic economic units and economic structure, but it also has an effect on public sector activities as well. Globalization leads to an increase in public debts due to the development in global public goods produced by the public (Global Public Goods: Health, Environment, Peace and Safety, Financial Stability etc.), the increase in public expenditures as a result of the fight against global problems, the global tax problems concerning taxation (tax competition, transfer pricing, taxation of e-trade) and the capital liberalization.

Two main theoretical approaches explaining the relationship between globalization and public finance are efficiency hypothesis and compensation hypothesis. Efficiency (Productivity) hypothesis favours the view that as the level of globalization (expand trade) in economies increases, the size of the public sector decreases and also supports limiting the size of the state, the shrinkage of welfare state, the reduction in tax rate and tax competition. Compensation hypothesis is an approach that creates an effect on increase in public expenditures and taxes and argues that the state should play a compensatory role by increasing public expenditures in order to reduce the external risks of globalization.

The number of studies analyzing the relationship between globalization and public finance indicators is highly limited in literature. Trade openness and financial openness were commonly used in literature as the indicators of globalization. In literature there are a few studies in which an index value is used as an indicator of globalization. This study is expected to use all of the public finance indicators (public expenditures, tax revenues and public debt) in the same study, to use KOF globalization index, a multilayered (economic, social and political) index as a globalization indicator and contribute to the literature in terms of methodology. In addition, through this study it is aimed to make certain domestic policy inferences in order to reduce the risks due to the globalization and maximize its benefits.

The relationship between globalization and public finance indicators for 28 EU countries and 1995-2017 period is econometrically investigated in this study by using panel data analysis. Following the introduction part, the information about globalization and globalization index is given and the theoretical framework about public finance and the studies analyzed in the literature on the subject are included in the study. Afterwards, the obtained findings are interpreted after the data set and method concerning the empirical analysis are explained. The study is concluded with the conclusion part.

Globalization and Globalization Index

Globalization defines the process of establishing connection networks between actors at different distances mediated through various flows, including people, information and ideas, capital, and goods. Globalization is a process that transcends national borders, integrates national economies, cultures, technologies, and governance, and generates complex affairs with interdependence (Savina et al., 2018: 5). Determinants and effectors of the globalization process are multinational companies, international companies, nation states and non-governmental organizations. Considering the emergence of globalization, the way it spreads and its impact areas, its eight different dimensions as economic, financial, political, cultural, technological, geographical, sociological, and ecological are mentioned (Çaşkurlu, 2017: 17-18).

The globalization process which has reshaped the world economy with an increasing momentum especially since 1980s has further deepened the difference between rich North - poor South, developed - developing, East-West and Center-Nearby countries. The fact that the determiners of economy policies followed during the globalization are the Center countries, the Nearby countries become directly dependent to these policies along with the financial and economic liberalization have led their capital gains to be transferred from the Nearby to the Center and this has led the Center capital gain to increase; however, the indebtedness level of the Nearby to increase and the economic growth potential to weaken. According to this point of view, globalization is a process which further increases the strong economic structure of the Center and leads the Nearby to weaken economically.

Various indices which measure the concept of globalization versatile and comprehensive composite indicators are considered have been developed in the last twenty years. A.T. Kearney / Foreign Policy Globalization Index (ATK / FP) is one the first globalization indices which was introduced in 2001 and used until 2006. It guided for the subsequent developed indices. KOF Globalization Index which was created in 2002 by inspiring from ATK / FP Index was updated by Dreher (2006) and Dreher et.al. (2008). Center of Search for Globalization and Regionalization (CSGR) in Warwick University created the globalization index for 1982-2004 period by measuring the economic, social, and political dimensions of the globalization using 16 different variables. Maastricht Globalization Index (MGI) is an index which includes the environmental dimension represented by the ecological footprint of export and import as a share of biological capacity for 2000-2008 period. New Globalization Index (NGI) measured the globalization for 1995-2005 period by considering the distance weight of some variables in order to better distinguish globalization from regionalization. DHL Connection Index which measured the connection by distinguishing the depth of integration from the width of integration in different dimensions of globalization instead of globalization was calculated for 2005-2015 period (Savina et al., 2018: 32). KOF Globalization Index published by Swiss Economic Institute in order to measure the globalization level as of 1970 discusses the globalization in three main dimensions as economic, social, and political. The early studies on KOF Globalization Index were conducted by Dreher (2006) and Dreher et.al (2008). The index was revised and calculated in two different dimensions as de facto and de jure by Savina et.al (2018). This type of KOF Globalization Index calculated by Savina et.al (2018) as de facto and de jure separately measures general globalization, in addition the economic, political, and social globalization levels of countries with these three dimensions every year. These two studies conducted about KOF Globalization Index are expressed in literature as KOF Globalization Index 2007 Version and 2018 Version. A detailed information about the structure of KOF Globalization Index (2018) is presented in Table 1.

Three main indices calculated in the globalization index consist of Economic Globalization, trade, and financial globalization sub-dimensions. Trade globalization includes the variables measuring the exchange of goods and services in long periods and is measured considering the share of external trade in GNP. Financial globalization, another sub-dimension, is measured by capital flows and foreign asset and debt stock indicators. Social globalization consists of interpersonal globalization, Informational globalization, and cultural globalization subcomponents. Political Globalization is measured using the variables in UN Peacekeeping Force missions and the number of embassies (Savina et al., 2018: 32). All variables used in creating Globalization Index are transformed to a figure between 1 and 100. For a certain variable "100" is the highest, "1" is the lowest figure. High figures in the index indicate more globalization. Index calculation for 197 of 203 countries or geographical units was explained in the latest study established in 2019 and indicating 2017 figures. According to 2017 KOF Globalization

Table 1. Structure of the KOF Globalization Index

KOF Globalisation Index de facto	Average
Economic Globalisation, de facto	**33,3**
Trade Globalisation, de facto	*50,0*
Trade in goods	40,9
Trade in services	45,0
Trade partner diversification	14,1
Financial Globalisation, de facto	*50,0*
Foreign direct investment	27,5
Portfolio investment	13,3
International debt	27,2
International reserves	2,4
International income payments	29,6
Social Globalisation, de facto	**33,3**
Interpersonal Globalisation, de facto	*33,3*
International voice traffic	22,9
Transfers	27,6
International tourism	28,1
Migration	21,4
Informational Globalisation, de facto	*33,3*
Patent applications	35,1
International students	31,2
High technology exports	33,7
Cultural Globalisation, de facto	*33,3*
Trade in cultural goods	22,6
Trademark applications	13,3
Trade in personal services	25,6
McDonald's restaurant	23,2
IKEA stores	15,3
Political Globalisation, de facto	**33,3**
Embassies	35,7
UN peace keeping missions	27,3
International NGOs	37,0

Notes: Weights in percent. Depicted are the weights for the year 2015. Overall indices for each aggregation level are calculated by the average of the respective de facto indices.

Source: Savina et al. (2018). The KOF globalization index–revisited, KOF Working Papers, No: 439, s. 32

Index results Switzerland (91.19), Netherlands (91.20), Belgium (90.59), Sweden (89.93) and United Kingdom (89.84) are the countries with the highest globalization levels. Eritre (30.15), Somali (31.29), Puerto Rico (34.40), West Bank and Gaza (36.26) and Comoros (36.91) are the countries with the lowest globalization levels (KOF Swiss Economic Institute, 2020).

The indicators concerning the variables that we used within the scope of the study belonging to 2017 for 28 EU member countries are presented as a summary in Table 2. As the indicators of 28 EU member countries for 2017 that we analyzed within the scope of the study in the framework of the data in Table 2 are evaluated, Netherlands (91.20) has the highest and Malta (77.9) has the lowest KOF Globalization Index indicators. When the share of tax revenues in GNP is evaluated, Denmark (33.37%) has the highest, Germany (11.47%) has the lowest figures. France (56.50%) has the highest and Ireland (26.10%) has the lowest share of public expenditures in GNP. Greece (176.20%) has the highest and Estonia (9.30%)

has the lowest share of public debt in GNP. When the data averages of 1995-2017 period are analyzed, in 28 EU countries KOF Globalization Index average is 79.7, the average ratio of tax revenues to GNP is 22.2%, the average ratio of public expenditures to GNP is 45% and the average ratio of public debt to GDP is 56.2%.

Table 2. Globalization Index for the Countries Within the Study, Tax Revenues, Public Expenditures and Public Debt Indicators (2017)

Country	KOF Globalization Index	Total tax revenue (% of GDP)	Total general government expenditure (% of GDP)	General Government Gross Debt, (% of GDP)
Austria	89.1	25.35	49.20	78.30
Belgium	90.7	23.28	51.90	101.70
Bulgaria	80.7	20.09	34.90	25.30
Croatia	81.3	21.56	45.30	77.80
Cyprus	79.1	24.05	36.80	93.90
Czechia	85.7	14.88	39.50	34.70
Denmark	89.3	33.37	51.20	35.80
Estonia	83.9	20.98	39.30	9.30
Finland	87.7	20.76	53.80	61.30
France	87.4	23.81	56.50	98.30
Germany	88.7	11.47	44.40	65.30
Greece	82.4	25.97	47.40	176.20
Hungary	85.1	22.93	47.00	72.90
Ireland	84.6	18.27	26.10	67.70
Italy	83.4	23.05	48.80	134.10
Latvia	80.3	23.63	39.00	39.30
Lithuania	81.3	16.63	33.20	39.10
Luxembourg	83.6	25.29	42.10	22.30
Malta	77.9	26.46	35.90	50.30
Netherlands	91.2	23.10	42.40	56.90
Poland	81.5	16.81	41.20	50.60
Portugal	84.9	22.46	45.40	126.10
Romania	79.8	15.44	33.50	35.10
Slovakia	83.7	17.81	41.50	51.30
Slovenia	81.1	18.44	44.10	74.10
Spain	85.8	13.86	41.20	98.60
Sweden	90.1	27.60	49.30	40.80
United Kingdom	90.0	25.45	41.20	86.20
1995-2017 Period for EU Countries	79.7	22.2	45.0	56.2

Source: KOF Globalization Index Data (2020), The World Bank (2020) and European Commission Eurostat (2020a,b).

Relationship Between Globalization and Public Finance: Theoretical Framework and Empirical Literature

Main instruments that countries use in order to fulfil their functions in the field of public finance are the production of public goods and services, public revenues (taxes) and public borrowing. The effects of globalization on public finance are the effects caused by those instruments (Baka and Susam, 2011: 38). International dimension of financial events which forms the subject of the public finance expanded along with the phenomenon of globalization. The fact that exogeneities of public goods and services transcend the national borders, the emergence of global taxation problems such as tax competition, transfer pricing and the taxation of e-trade as a result of the development in international economic, financial and commercial affairs, the fact that the fight against global problems as a result of globalization leads to an increase in public expenditures and the effects caused by the differentiations in production techniques and types of public goods and services on the expansion of public sector activities are the reasons for this expansion (Pehlivan and Öz, 2019: 17-18).

Globalization and Global Public Goods

There are goods and services that countries perform direct production within their borders and regulates their production activities by their duties and responsibilities. These goods and services are called as public goods and services. The goods and services which become common along with the globalization process and whose benefits and harms are excessive due to their features are defined as global goods and services (Çaşkurlu, 2017: 108). The concept of global public goods has firstly analyzed in the work called as "Global Public Goods" published in 1999 by United Nations Development Programme (UNDP). In this study, the concept of global public goods is defined as the goods whose benefits globally transcend the borders of countries, that there is no competition in the consumption of them and cannot be excluded from or deprived of the benefit of individuals (Kaul et al. 1999: 3). Environment, peace and security, financial stability, health, information, and governance are given as the examples for the global public goods (Kaul et al. 1999: 13-14). Global public goods are becoming more common in the fields of activity (environment, security, health, financial instability) that are defined as international public evils spreading negative exogeneities (Gümüş, 2013: 29-30). Low production of the activities spreading positive exogeneity effect in the production and consumption of global public goods, undesirable level of the activities causing negative exogeneities and free rider problem are the most important problems. It became hard for countries to create additional financing resources in the fight against the problems such as environment, poverty, health, etc. caused especially by the globalization process and the subsidies by global organizations to those countries for the fight against those problems failed to satisfy (Pehlivan and Öz, 2019: 40-41.

Globalization and Public Expenditures

Liberal economy policies which became common along with the globalization process aimed the shrinkage in public sector. However, various risks caused by the globalization process and the necessity for the fight against those risks led the public expenditures to increase, but the public revenues to decrease. Therefore, public borrowing and interests also increased. As a result, the increase in public borrowing and interest payments also led the public expenditures to increase and move them away from their

basic functions (Bakkal and Susam, 2011: 38). There are two main hypotheses concerning the effects of globalization on public expenditures. They are efficiency hypothesis and compensation hypothesis.

Efficiency hypothesis argues the view that public sector size decreases and public activities are restricted as the openness level of economies increases. According to this hypothesis, the expansion in public expenditures for employment and the production of public goods has a decreasing effect on the global competitiveness of local producers, but an increasing effect on tax burden. In this respect, efficiency hypothesis aims the size of the state in economy to restrict in all aspects (Aytaç, 2018: 136). According to the efficiency hypothesis, tax competition will also have a decreasing effect on public expenditures by making downward pressure on tax revenues. The main reason for the decrease effect in public expenditures is that the budget prepared by means of tax revenues and borrowing prevents private sector individuals and organizations from having a negative effect on investment decisions (Tütüncü and Zengin, 2019: 82). In addition, productive expenditure inputs of private or public sector such as education, research, and development (R&D) and infrastructure expenditures in countries promote the international mobility of capital and income taxpayers to pass to the countries presenting better opportunities. The entry of capital and labor to advantageous countries will lead to the expansion in tax bases in countries (Tanzi, 2000: 118).

Compensation hypothesis assumes that public expenditures make an upward pressure on demand side in public budget due to the increase in public expenditures. Compensation hypothesis favours the view that demands of individuals for public social protection expenditures to reduce the damages that they experience due to the exposure to the external risks of the globalization and countries need to play a compensatory role by increasing the public expenditures in order to reduce the welfare losses caused by the globalization. In literature compensation hypothesis was determined by the studies of Cameron (1978) and Rodrik (1998) and the fact that globalization process created an increase effect on public expenditures as a result of an increase demand especially to social insurance and social relief services along with the openness process was analyzed in various empirical studies (Tuncer, 2016: 145).

Cameron (1978) determined that public sector size increased as the openness level of countries increased in globalization process. Rodrik (1998) determined that states needed to increase their expenditures on social insurance and welfare in order to reduce the negative effects of external risks caused by globalization on domestic income and employment in the countries where openness level increased because of global competition. Grunberg (1998) stated that many countries experienced "financial congestion" problem as the globalization progressed and globalization affected the public sector either directly or indirectly as a result of increasing needs for public expenditures and/or troubles in enhancing revenues.

Gözgör et al. (2019) analyzed the effect of globalization on developing countries using innovative bureaucracy and globalization indicators for 92 developing countries in 2000-2016 period. Study results indicated that economic globalization had a decreasing effect on public employment, in other words, it favoured the efficiency hypothesis. However, the results forecasted that excessive globalization would remarkably reduce the public employment in developing economies due to the automation and digitalization in 21th century.

Porto et al. (2016) analyzed the effects of economic openness and globalization in Argentina on the structure of state government expenditures. The study results indicated a negative effect of economic openness and globalization on social expenditures and the existence of the effect of "Efficiency Hypothesis" against "Compensation Hypothesis". In the study where the effects of globalization process on public expenditures were analyzed including 60 countries and 1971-2001 period by Dreher et al. (2008) it was

concluded that globalization had no effects on public expenditures, the state was not affected from this situation and the government did not reform the expenditure shares as a result of globalization.

Garrett & Mitchell (2001) in their study that the effect of the phenomenon of globalization developing as a result of the recent variant market integration on public expenditures was theoretically and empirically analyzed expressed that the increasing globalization among countries led to an increase in capital movements and trade levels and concluded that correlation effect of the globalization to public expenditures was negative.

Kimakova (2009) analyzed the relationship between financial globalization and public size for 87 developed and developing countries for 1976-2003 period. The existence of a positive relationship between financial globalization and public size was determined as a result of the study. Abizadeh (2005) analyzed the relationship between public expenditures and commercial globalization in the study including the USA, South Korea, Singapore, Egypt, and Uruguay. According to the causality analysis results, a bi-directional causality was identified between public expenditures and commercial globalization for the USA and Uruguay and from commercial globalization to public expenditures for Canada, Singapore, and Egypt.

Yıldız (2019) identified a one-directional causality from globalization index, economic globalization, and social globalization to public expenditures in the study that the relationship between globalization covering 1995-2015 period in 27 OECD countries and public size was analyzed. A bi-directional casuality was identified between political globalization index and public expenditures. In general, it was evaluated that the developments in globalization performance affected the public expenditures; however, the developments in public expenditures did not affect the overall globalization.

Globalization and Tax Revenues

Globalization process restricts countries' power to form independent tax policies in the field of taxation and increases tax competition. In globalization process countries become more sensitive to the tax policies of other countries that they have economic, commercial, financial, etc. affairs. Tax competition is related with the efficiency hypothesis which analyzes the effects of globalization on public finance. Efficiency hypothesis refers to the competition among countries and the downsizing in public sector for mobile production factors and goods. Compensation hypothesis aims the increase in welfare state practices, in other words the expansion in public sector in order to protect individuals against the risks emerging in globalization process (Giray, 2005: 102-103). Tax competition is favoured because it contributes to foreign capital inflow to the country by providing factor mobility after the reduction in tax rates and it becomes necessary for governments to establish a rational equilibrium between tax burden and public expenditures. Tax competition is criticized because it leads to a decrease in public revenues, causes financial distruption and unfair distribution of tax burden and increases tax costs (Çaşkurlu, 2017: 169-171).

Tanzi (2005) stated that tax base of a country in globalization process was not limited only with that country, but also it expanded to include some of the rest of the world. He expressed the view that the "world tax base" also became a "common area" like ocean and the atmosphere, as the globalization process, especially for a small country, provided the opportunity to get other countries' tax bases in a way that was not possible before. According to Avi-Yonah (2000), abatement in taxation on the revenues obtained from foreign portfolio and direct investments through tax competition leads tax base erosion and revenue losses and reduced the taxation potential. In addition, unlimited tax competition threatens

the social insurance system in developed countries in a period in which countries experience a serious financial crisis.

According to Kargı & Karayılmazlar (2009) globalization increased the capital mobility and started a competition to attract the capital especially among the developing countries. This competition confronted nation-states with the problem of decreasing tax revenues as a result of reducing tax revenues and the developments in information and communication technologies create risks for the future in terms of tax revenues causing the trade to shift in electronic platforms. According to Çelikkaya (2010), it is impossible to regulate the tax rules with unilateral or bilateral tax agreements among countries as a result of the globalization process. In a world where capital freely moves among countries, the sovereignty of multinational companies to choose among many investment sites highly limits the quality capital taxation of any country.

Neumann et. al (2009) mentioned within the relationship of globalization with tax revenues that labor and capital caused a decreasing tax liability with the effect of some non-tax factors due to the free movement among countries and stated that globalization would lead to a convergence in tax rates. Although the increasing international factor mobility reduced the tax revenues to some extent, they obtained results that governments still maintained their ability to collect taxes.

Globalization and Public Debt

In the last thirty years, there has been an increase in public debt in many developed and developing countries along with the increasing integration of the world economy. For that reason, how globalization affects public debt stock is important (Kim et al., 2018: 2793). In the theoretical and empirical studies in which the relationship between globalization and public debt was analyzed it was observed that three different results were obtained as capital liberalization increased the government debts, there was no relationship between globalization and public debt and capital liberalization reduced the government debts by disciplining the budget deficits.

Kim et al. (2018) in their study analyzed the relationship between globalization, public debt, and public size in 56 developed and developing countries for 1980-2011 period. The variables used in the study are commercial, financial, social, and political globalization, public expenditures, tax revenues and public debt. According to the obtained results, a one-directional causality was identified from commercial, financial, and political globalization to public expenditures, tax revenues and public debt. In addition, it was concluded that public size increased with the level of commercial globalization; however, it decreased with the level of financial, political, and social globalization. That being said, public debt increases along with the financial and commercial openness; however, it decreases along with the political and social globalization. Efficiency hypothesis is generally favoured in the study results and therefore it is concluded that overall globalization level decreases the public size and public debt.

Azzimonti et al. (2014) stated that public debt stock increased in most of the developed countries in the last 30 years and international capital markets of this period were liberalized in a large scale and income inequality constantly increased in this period. In addition, it was discussed that if the possibility of emergence of debt crises was higher when the public debt stock was higher, liberalization of capital markets following the globalization and the increase in public borrowing caused by the increasing income inequality would contribute a great debt crisis to occur. Liu & Sun (2016) in their study that the effects of the developing economic openness with the globalization on public debt were analyzed for

31 countries between 2004 and 2010 determined that financial openness in developing countries had a positive effect on the increase in public debt; however, it had a negative effect in developed countries.

Schmukler & Vesperoni (2006) identified in their study that in developing economies companies increased their long term debts and extended their due dates by the easy access to international markets with the financial globalization process. It was also concluded that along with the financial liberalization long term debts decreased in the companies based on local financing and the due date structure turned into short term form for an average company. The study results indicate that companies are less affected by financial liberalization in developing economies with more developed local financial systems. The results favour the view that (since the participation in international capital markets has a positive effect on long term debts) financial globalization has positive effects in developing economies.

Data, Methodology and Empirical Results

Long term effects of the globalization on public expenditures, tax revenues and public debt between 1995 and 2017 in EU countries were analyzed in this study. Public expenditures, tax revenues and public debt were separately estimated in long term in the models in which KOF Globalization Index was considered as an independent variable. The information about the variables used in model estimations are presented in Table 3.

Table 3. Descriptions of Variables

Variable	Explanation	Source
PEXP	Total general government expenditure (% of GDP)	EU Eurostat
TAX	Total tax revenue (% of GDP)	The World Bank
DEBT	General Government Gross Debt (%of GDP)	EU Eurostat
KOF	Globalization Index	KOF Swiss Economic Institute

The following models were established in order to estimate the long term effect of the globalization on public expenditures, tax revenues and public debt. The established long term cointegration estimation models are indicated in Table 4. Model 1 was established in order to present the long term effect of globalization on public expenditures; Model 2 was established in order to present the long term effect of globalization on tax revenues; Model 3 was established in order to present the long term effect of globalization on public debt. In equations i represents the unit cross sections (countries), t represents each year in 1995-2017 period, e_{it} represents the error term. PEXP variable represents the public expenditures, TAX variable represents the tax revenues, DEBT variable represents the public debt. Public expenditures, tax revenues and public debt variables were collected from EUROSAT and THE WORLD BANK and the share of variables in Gross National Product was used. The data for globalization were collected from KOF Swiss Economic Institute. Variables were included in the models by taking their natural logarithms. Analyses were conducted using Eviews 9.0, Gauss 10 and Stata 12 programmes.

Panel data analysis was used in order to estimate the long term effect of globalization on public expenditures, tax revenues and public debt in EU countries in 1995-2017 period. The variables used in the estimated models similar to time series should be stationary in panel data analysis. The analysis is formed

Table 4. Models

Model	Equations
Model 1	$LNPEXP_{it} = \beta_0 + \beta_1 KOF_{it} + e_{it}$
Model 2	$LNTAX_{it} = \beta_0 + \beta_1 KOF_{it} + e_{it}$
Model 3	$LNDEBT_{it} = \beta_0 + \beta_1 KOF_{it} + e_{it}$
i=1,……,28 (EU Countries) t=1,……..,8 (1995-2017).	

according to the stationarity of the series. For that reason, the stationarity of the series was tested first. In the panel data analysis, the stationarity of the series was tested according to whether there is a cross sectional dependence in series or not. In addition, cointegration methods also determine the cross sectional dependence. For that purpose, cross sectional dependence of series was investigated before the stationarity levels of the series was determined. The relationship of each cross section with each other and the shocks happened in units may affect other units in the panel data analysis. Ignoring the related relationship prevents the results from being effective and consistent. Cross sectional dependence of the variables in this study was determined by Breusch and Pagan (1980) CDLM1 test (LM1), Pesaran (2004) CDLM2 (LM2) test, Pesaran (2004) CDLM test (CD) and Pesaran, Ullah and Yamagata (2008) CDLMadj (LMadj) test. Test results were summarized in Table 6 in the Appendix. According to the test results, it was determined that all the variables used in the models had cross section dependence. For that reason, stationarity of the series was investigated by Hadri and Kurozumi (2012) Test, a second generation unit root test. Hadri-Kurozomi unit root test is the adapted form of Kwiatkowski, Phillips, Schmidt, and Shin Test (KPSS) for the panel data analysis. Z_A^{SPC} and Z_A^{LA} test statistics are calculated for this test. Hadri-Kurozomi unit root test was developed based on Pesaran (2007) CADF test. Hadri-Kurozomi unit root test results belonging to the variables were summarized in Table 7 in the Appendix.

According to the unit root test results, it was determined that all of the variables included unit roots at level; however, they were stationary at the first difference. The fact that variables become stationary at their first difference enables the investigation of the long term relationships to be estimated in models. Following this stage, the long term relationship to be estimated in models was tested through cointegration tests. Cointegration tests also vary depending on whether the cross section dependence and slope coefficients are homogeneous in models established similar to unit root tests. The existence of cross section dependence in models was identified by Pesaran (2004) CDLM test and Pesaran et.al (2008) CDLMadj tests. The homogeneity of slope coefficients of the established cointegration models was determined by Delta Test developed by Pesaran and Yamagata (2008). Cross section dependence test results and homogeneity test results in models were presented in Table 8 in the Appendix. According to the test results, cross section dependence was identified in all of the established models. It was also determined that slope coefficients of coefficient models were heterogeneous for all models.

In the next part of the analysis, it is necessary to select the cointegration test which considers the cross section dependence and the heterogeneity in the slope coefficients. Therefore, cointegration was estimated by Westerlund (2008) Durbin Hausman Cointegration Test used when the slope coefficients of the variables are both homogeneous and heterogeneous besides considering the cross section dependence. Cointegration test results are presented in Table 9 in the Appendix. Since cointegration slope

coefficients are determined heterogeneously in models, decisions are made by considering Gt and Ga statistics values. The existence of cointegration was determined by rejecting the null hypothesis as there is no cointegration in all models. After this stage of the analysis, Common Corelated Effects Mean Group (CCEMG) estimator developed by Pesaran (2006) was used for the long term cointegration coefficients in cointegration models. The main reason for selecting this estimator is that it is sensitive to cross sec-

Table 5. Long-run Estimates (CCEMG)

Independent Variable: KOF			
	PEXP (1)	**TAX (2)**	**DEBT (3)**
Austria	-0.0395 (0.350)	**0.0636 (0.003)**	**-0.0452 (0.041)**
Belgium	-0.0339 (0.523)	-0.0005 (0.985)	**0.1087 (0.003)**
Bulgaria	0.0374 (0.265)	0.0521 (0.411)	0.0099 (0.333)
Croatia	-0.0254 (0.781)	0.1057 (0.475)	**0.1085 (0.002)**
Cyprus	-0.1520 (0.231)	0.0463 (0.542)	**-0.1538 (0.001)**
Czechia	**-0.0756 (0.002)**	0.0707 (0.195)	0.0323 (0.010)
Denmark	-0.0855 (0.244)	**-0.0749 (0.020)**	**-0.0299 (0.384)**
Estonia	-0.0020 (0.968)	-0.0482 (0.489)	**-0.8241 (0.059)**
Finland	**-0.0790 (0.079)**	**0.0988 (0.002)**	**-2.5283 (0.000)**
France	**-0.4524 (0.000)**	**0.1067 (0.000)**	**-0.5192 (0.000)**
Germany	**0.0921 (0.020)**	0.0056 (0.895)	0.2853 (0.115)
Greece	0.0435 (0.408)	**0.1195 (0.001)**	0.1870 (0.359)
Hungary	-0.0283 (0.459)	**-0.0456 (0.058)**	-0.1593 (0.193)
Ireland	-0.0119 (0.499)	0.0040 (0.898)	-0.6922 (0.743)
Italy	**-0.4096 (0.002)**	0.0842 (0.283)	**-0.3004 (0.068)**
Latvia	0.0820 (0.196)	0.1263 (0.121)	0.1186 (0.733)
Lithuania	0.0286 (0.198)	0.0329 (0.495)	**1.8143 (0.012)**
Luxembourg	**-0.1717 (0.004)**	-0.0694 (0.689)	0.4425 (0.362)
Malta	-0.1737 (0.251)	0.0031 (0.924)	0.1486 (0.315)
Netherlands	-0.0573 (0.228)	-0.0169 (0.653)	**-1.9692 (0.000)**
Poland	0.0745 (0.477)	0.0213 (0.673)	-0.0277 (0.768)
Portugal	-0.0575 (0.480)	0.0138 (0.863)	0.1297 (0.647)
Romania	0.0817 (0.219)	-0.0106 (0.866)	0.2760 (0.134)
Slovakia	**-0.1758 (0.000)**	**0.2280 (0.031)**	**-0.8162 (0.000)**
Slovenia	0.0204 (0.756)	0.2119 (0.118)	-0.2345 (0.230)
Spain	**-0.1165 (0.072)**	0.0123 (0.790)	**-0.6925 (0.000)**
Sweden	**-0.1873 (0.007)**	**0.0529 (0.204)**	**-1.0568 (0.000)**
United Kingdom	-0.0278 (0.412)	0.0782 (0.145)	-0.0092 (0.987)
PANEL	**-0.0684 (0.006)**	**0.0454 (0.001)**	-0.0072 (0.598)
Notes: Values in parentheses are prob. values.			

tion dependence and it can be used in heterogeneous panel estimations. The result of estimation models established in order to indicate the long term effect of globalization on public expenditures, tax revenues and public debt is indicated in Table 5.

Long term effects were estimated in three different models. Column 1 indicating the results in first column indicates the effects of globalization on public expenditures. Accordingly, it was determined that globalization had a negative and significant effect on public expenditures in EU countries between 1995 and 2017. According to estimation results, public expenditures decrease approximately 0,07% as globalization increases 1%. This result is compatible with the previous studies conducted in literature. Results favour the efficiency hypothesis for public expenditures in EU countries. This result supports the view that financial discipline in open economies will decrease the public size and indicates that the economies or governments exposed to more international capital inflows tend to have smaller size of state which is compatible with efficiency hypothesis. Public size decreases as the globalization level increases in EU countries. When the results are analyzed special for countries, a negative and statistically significant relationship was identified between globalization and public expenditures in Czechia, Finland, France, Italy, Luxembourg, Slovakia, Spain, and Sweden. However, a positive relationship was identified between globalization and public expenditures for Germany in special. The obtained results in the study concerning globalization and public expenditures do not verify the hypothesis by Cameron (1978) and Rodrik (1998) in literature suggesting that globalization creates a bigger public sector.

The results in Column 2 indicates the long term effect of globalization on tax revenues. Accordingly, the effect of globalization on tax revenues is positive and statistically significant. As the globalization level increases 1%, tax revenues increase 0,05%. The results favour compensation hypothesis in terms of tax revenues in EU countries. These results support the view that globalization will increase tax revenues and indicate that taxation capacity of countries increase as the globalization level increases. According to the results specific to countries, while a positive relationship was identified between globalization and tax revenues in Austria, Finland, France, Greece, Slovakia and Sweden, a negative relationship was identified in Denmark and Hungary. The study results concerning the relationship between globalization and tax revenues favour the Tanzi's (2005) view that countries will increase their tax revenues by expanding their tax bases in globalization process; however, they do not verify Avi-Yonah (2000) and Neumann et.al (2009)'s approach stating that increasing international factor mobility and tax base erosion in globalization process will decrease tax revenues. Column 3 indicates the long term effect of globalization on public debt. According to the analysis results, it is seen that the effect of globalization on public debt between 1995 and 2017 is negative and statistically insignificant.

When the results are evaluated in general, it is seen that globalization level increases tax revenues, but decreases public expenditures. Although the obtained results are compatible with the previous studies in literature in terms of public expenditures, they vary in terms of tax revenues. Positive effect of globalization process on tax revenues in related countries indicates that countries can turn international factor mobility in their own favour, raise the tax base by utilizing from foreign investment entries in tax competition process and governments can compensate their losses easily by developing their tax collection abilities.

CONCLUSION AND EVALUATION

The effect of globalization on public economy and financial tools has always been an attractive issue. For that reason, the number of studies investigating the effect of globalization on public expenditures, tax revenues and public debt is quite high. The limit of public economy and economic scope of the state have formed the fundamental of the thoughts in economics. Mercantilist view which adopted the intervention in economic scope and Keynesian economic view which widened its scope following the crisis in 1929 maintained their effects for long years. On the contrary, Classical economic view based on minimal state and free market economy advocated that economic activities of the states were unproductive and inefficient. On the basis of relevant thoughts, the size and limit of public economic activities have changed until today.

Globalization in the new world order is also now among the important factors that determine the economic limits and size of the states. Along with the globalization economic scope of the nation states was also restricted. For instance, taxes for foreign trade have gradually decreased for some reasons such as the increasing mobility of production factors, regional integrations, and multinational companies. The reasons of the increase in public expenditures, public revenues and public debt were analyzed based on internal factors in the fundamentals of economic thoughts and other economic theories. However, Cameron's (1978) premise study and Rodrik's (1998) studies determined that globalization tendencies of countries measured by openness increased public expenditures. The effect of globalization on public economy is basically explained with two main hypotheses. They are compensation hypothesis and efficiency hypothesis.

In this study the effect of globalization on public expenditures, tax revenues and public debt in EU countries in 1995-2017 period was analyzed through panel data analysis based on the relevant studies. According to the analysis results, it was identified that long term effect of globalization on public expenditures was negative; however, long term effect of globalization on tax revenues was positive. Study results favour the efficiency hypothesis for the effect of globalization on public expenditures, but the compensation hypothesis for the effect of globalization on tax revenues. In addition, it was determined that the effect of globalization on public debt was positive, but statistically insignificant

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APPENDIX

Table 6. Cross Section Dependence Test Results

	CDLM1	CDLM2	CDLM	CDLMadj
PEXP	1620.488 (0.000)	44.1705 (0.000)	43.5341 (0.000)	22.685 (0.000)
TAX	1413.503 (0.000)	36.6425 (0.000)	36.0061 (0.000)	9.4677 (0.000)
DEBT	3678.085 (0.000)	119.004 (0.000)	118.368 (0.000)	38.375 (0.000)

Table 7. Unit Root Test Results

		Z_A^{SPC}	Z_A^{LA}
I(0)	PEXP	3.8363 (0.000)	10.5877 (0.000)
I(0)	TAX	6.7840 (0.000)	1.5674 (0.058)
I(0)	DEBT	4.5568 (0.000)	9.0318 (0.000)
I(0)	KOF	9.9006 (0.000)	35.3439 (0.000)
I(1)	PEXP	0.3319 (0.370)	0.6293 (0.244)
I(1)	TAX	0.2660 (0.395)	0.5147 (0.303)
I(1)	DEBT	0.4685 (0.319)	0.9526 (0.170)
I(1)	KOF	-0.5063 (0.693)	0.2460 (0.402)

Table 8. Cross-sectional Dependence and Homogeneity Test Results

			Statistics	Prob.
Model 1	Homogeneity	Delta Tilde Delta Tilde adj	18.459 19.733	0.000 0.000
	CSD	CDLM CDLMadj	29.733 86.150	0.000 0.000
Model 2	Homogeneity	Delta Tilde Delta Tilde adj	17.736 18.961	0.000 0.000
	CSD	CDLM CDLMadj	11.759 70.199	0.000 0.000
Model 3	Homogeneity	Delta Tilde Delta Tilde adj	19.291 20.623	0.000 0.000
	CSD	CDLM CDLMadj	49.222 103.477	0.000 0.000

Table 9. Cointegration Test Results

		Statistic	Z-value	P-value	P-value (Bootstrap)
MODEL 1	Gt	-1.66	-3.479	0.000	0.000
	Ga	-4.503	-0.815	0.207	0.000
MODEL 2	Gt	-1.703	-3.699	0.000	0.000
	Ga	-4.243	-0.513	0.304	0.000
MODEL 3	Gt	-1.917	-4.783	0.000	0.000
	Ga	-3.65	0.177	0.570	0.000

Chapter 17
Stages of Globalization and Their Reflections on Higher Education

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ABSTRACT

Globalization refers to the case wherein individuals' demand the fulfillment of their needs and desires from the world that they cannot fulfill within national borders and the dynamism these demands create within themselves. Moreover, this dynamic structure, which exists to satisfy needs and desires, has massively impacted the financial, political, and social lives of societies. Shaped around globalization, a global market was established in the world. Further, the communication emerging due to the establishment of a global market necessitated the development of a common perspective among distinct cultures and revealed a need for people who could perceive this aspect. Thus, an inevitable bond was formed between globalization and education; this relationship is evidently observed in higher education institutions, as they are one of the essential components of an information society. This study therefore deals with different periods wherein the effects of globalization were noticed and the interaction between these periods and the field of higher education.

INTRODUCTION

Globalization can be summarized either as an indispensability or a voluntary dance between nations of the world. The roots of globalization, which refers to the mutual interaction among people living in different regions of the world, date back to the early ages when people practiced the barter system. The trade conducted through the Silk Road and the Spice Road, which began Before Common Era and continued until the Age of Discovery, forms the basis of the concept of globalization. Although differences seem to prevail in the understanding of globalization in parallel with the developments and changes in the world, the interdependence of countries stands as an ever-existing factor, i.e., some countries depend on others countries to sell what they produce, and some countries depend on the others countries to buy

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what they cannot produce. The period between the Age of Discovery and the late 1800s was a time of countertrade, which was established due to the economy's exploitative perspective. Therefore, it can be deduced that a chain of trade in these years developed under the colonialism domination instead of a global world. Relevant literature (e.g., Baldwin 2018; Kıvılcım 2013; Vanham 2019) divides the stages of globalization as follows: Stage 1, the period between the Industrial Revolution (1870) and World War I (WWI) (1914); stagnation period of globalization, the period between 1914 and the end of World War II (WWII) (1945); Stage 2, the period between 1945 and 1990, ending with the Fall of the Berlin Wall and the Dissolution of the Soviet Union; and Stage 3, extending from the 1990s to the early 2000s, is a period influenced and shaped by the technological revolution. The digital revolution, which is a product of the rapid development of technology, became the most essential aspect that left its mark on the last period.

It can be said that globalization has broadly adopted various façades in each stage. The unchanging rule of this dynamic phenomenon is the fact that the developments in the world affect the actors in the market; the leading actors, whoever they are, dominate the world; and those possessing financial powers are the bosses of this order. Another unchanging truth is the need for a common market, which emerged as a result of globalization, for "labor force." As the world develops, the need for educated individuals has increased, and this aspect motivated researchers to think more about higher education institutions that are expected to train the human resource. Hence, the answers to the questions such as "Can higher education institutions train a human resource suitable for every era?", "Can they keep up with the dynamism in the world?", "Do they lead the global world or just try to catch up with it?" became more important. Of course, it is not very easy to answer these, but we believe that considering what happens within the field of higher education and within the stages of globalization might provide researchers with a perspective to answer these questions.

Just as it is in economy, in the field of higher education, every country has its national domain and international mobility integrated in the world. Therefore, it is difficult to think about the relationship between globalization and higher education independently of the concept of "internationalization." Internationalization is a process that affects many areas ranging from school curricula to diploma equivalences, from student exchanges to teaching staff exchanges, or from international cooperation among universities to international universities jointly established by two countries. Knight's (2004) definition of internationalization as "the process of integrating an international, intercultural, or global dimension into the purpose, functions, or delivery of post-secondary education" served as an essential source of reference for the literature. The relationship between globalization and internationalization was pointed out by many authors (e.g., Altbach 2004; Şimşek and Bakır 2016; Teichler 2009), and these works argued that internationalization emerged as a result of globalization. Yılmaz (2016) stated that the field of higher education, which is traditionally accepted as a national issue, turned into an international field where the number of global and regional actors continuously increases. Teichler (2009) viewed globalization as an initiative that blurred the concrete lines between borders and national systems and characterized internationalization as an effort to increase the operations between the blurring borders.

In the context of this relationship, we face the fact that every development in the world under the influence of globalization might reflect on the field of higher education. In this regard, first, the stages of globalization with a further emphasis on recent years will be assessed. Then, the changes in the field of international higher education will be evaluated through a larger framework concerning the developments it underwent from the 1990s, when the phenomenon of globalization became prominent in the world, to the present day. Thereby, the interaction between globalization and international higher education field will be revealed.

STAGES OF GLOBALIZATION

The Period Between the 15th and 19th Centuries

The conquest of Istanbul (1453) by the Ottoman Empire increased the stronghold of the Ottomans on the Silk Road and the Spice Road that pushed the Western countries to search for alternative trade routes, thereby leading to the Age of Discovery that changed the world history. In addition to the Age of Discovery, the invention of telegram and the maritime and railroad sectors' advancements were other significant developments in these years. By enhancing their impact in the world as a result of all these developments, Western countries became dominant by employing their colonial policies both in the lands they acquired and in those where they reinforced their political, military, and commercial controls. The resources obtained during the marine expeditions and from colonized lands were transferred to Europe, enabling the continent to further prosper and develop. This enrichment reflected in the fields of science, philosophy, and culture and societal life, thus paving the way for the Industrial Revolution. The low level of trading volume and the difficulty in obtaining reliable data for the given period render it difficult to evaluate this period. On the basis of the data suggesting that the level of international trade corresponded to less than 5% of the total GDP (Taylor 2002), it can be argued that these years were a period of preparation for the establishment of the global world order.

The First Period: Globalization 1.0

Globalization 1.0 occurred before the world wars. We can divide this period into two phases: The period from the Industrial Revolution in the late 1800s to WWI and the period between WWI and 1945s. The first phase is the period when barriers and tariffs to international trade, if any, were few. The impact of those who monopolized the capital was more prominent compared to the impact of states and institutions. In this period, which is assumed to have begun in 1870 with the Industrial Revolution, the barriers to international trade and limitations to the mobility of capital and labor force were minimized, and the goods trade reached remarkable levels. Input costs dropped—thanks to the cheap workforce that migrated to developed countries to find better job opportunities; due to this cost advantage, the dominant groups and countries became richer. Innovations, such as steamships and telephones, that emerged in this period and the increase in railroads made communication across countries moderately easier and contributed massively to trade development. However, as these developments did not penetrate to the grassroots level, they supported the well-being of certain groups rather than that of the society as a whole. During these years when Britain was extremely powerful, the *laissez-faire* policy (i.e., let them do as they choose), the vanguard of capitalism, proposed that the intervention of the state in trade should be minimal, bringing together a world order in which the rich became richer, and the rest were crushed. Therefore, a bourgeoisie class emerged, which possessed all means of production and shaped the state and politics in accordance with its interests. This period, in which the free economy was strong, but this strength was not equally distributed, witnessed WWI (1914), the Great Depression (1929), and WWII (1939). The free policies implemented between 1870 and 1914 were thus interrupted. Due to these great wars, the years between 1914 and 1945 witnessed nationalist movements in politics and protectionist/restraining policies in economics, and the notion of becoming self-sufficient became prominent. In contrast, although Stage 1 (1870–1914) was dynamic in terms of the world trade, an opposing tendency emerged during 1914–1945; hence, the process of globalization came to a standstill.

The Second Period: Globalization 2.0

Globalization 2.0 commenced with the end of WWII and stretches up to the 1990s. In this period, when trade was not channelized through particular groups, the states got involved and established mechanisms to both encourage and regulate trade. Britain, which was then the power that ruled the global, was replaced, and the USA made its mark during these years (Vanham 2019). Under the auspices of the USA, international institutions, such as the World Bank (1944), the United Nations and the International Monetary Fund (IMF) (1945), the General Agreement on Tariffs and Trade (1947), and the Organization for European Economic Cooperation (1948), were established as a result of a new policy that supported "free trade on the basis of rules and regulations." During these years, which were also marked by technological developments, steps were taken in accordance with the requirements of making trade free in a common market mindset, particularly after the 1970s. One of the milestones in Globalization 2.0 was the Bretton Woods Agreement (1940–1971). To compensate for the devastating effects of WWII, the delegates from 44 countries met at a conference in the USA in 1944 to create a new international currency system. The Bretton Woods Agreement was signed at this conference, where the foundations of World Bank and IMF were laid. The countries involved in this agreement decided that their currencies would be indexed to the US Dollar, and the US Dollar would be a reserve currency indexed to gold. The value of one ounce of gold was set at 35 US Dollars, and thus, the US Dollar replaced gold. However, such a system led to the overvaluing of the US Dollar and the gold reserves of the USA to pine away, undermining the confidence in the US Dollar. To prevent this, Nixon, the then President of the USA, suspended the conversion of 35 US Dollars into one ounce of gold in 1971. This event was called the "Nixon Shock" and brought an end to the Bretton Woods system, and thereafter, the trade of gold was turned into a transaction in the free market. The major developments that led to globalization within the finance markets thus commenced. With the demolition of the fixed exchange rate system and transition into flexible exchange rates, it became possible to earn money through exchange across currencies, and these rapidly increasing transactions introduced a vast foreign exchange market. As of the 1980s, rapid industrialization, increasing production rate, the developments in product and production technology, the resulting search for new markets, and the competition between countries and firms became the most essential dynamics of the global world. Finally, the Fall of the Berlin Wall (1989), the Dissolution of the Soviet Union (1991), and the resulting collapse of the Eastern Bloc, the prominent actors in those years, steered the world to a unipolar global order led by the USA.

The Third Period: Globalization 3.0

Globalization 3.0 refers to the period between the 1990s and the 2000s. The emergence of entities such as the North American Free Trade Agreement (NAFTA), which was signed in 1994 among the USA, Canada, and Mexico, or the World Trade Organization, which was established in 1995 to conduct and overview the multilateral trade agreements, encouraged the whole world to be a global actor as a constituent of free trade. As of the 2000s, rapid technological developments in the world order wherein competition was high, and money was being circulated in huge amounts swiftly ushered in a different dimension to globalization. Moreover, the spread of the Internet, which is also referred to as the "Third Industrial Revolution," made it a lot easier for people from all over the world to conduct business with one another. Through this technology that connected the world and removed all the barriers, goods and services changed hands more quickly and easily. Thanks to these developments, companies were able to

make their value chains more global and formed more profitable production chains at lower costs. For instance, a company conducting research and development (R&D) in one country could produce its goods and services in another country but could sell its produce to the entire world. E-commerce and digital services, which were developed because of the emerging technologies, established a gigantic "cyber world." By being able to benefit from all the opportunities provided by this world after connecting to the Internet without the need of an ID card or approval of any kind, people had the opportunity to cross borders and wander new places that they could not even imagine, seize new different opportunities, and acquire new experiences and knowledge.

The Last Period: Globalization 4.0

Having gone through various stages since Columbus' discovery of the new world, globalization reached its fourth stage. Even a simple overview of the developments in recent years (such as the "Brexit" initiative in England, Trump's "America first" discourse, Chinese President Xi Jinping's support for more inclusive globalization and his worldwide call for the Belt and Road initiative) are indicators of the changes occurring. Today, encountered with the influence of many factors such as mobile technologies, artificial intelligence, unmanned aerial vehicles, driverless land vehicles, autonomous objects such as robots, big data projects, production by three-dimensional printers, virtual currencies, digital trade, climate change, and changing geopolitical agents, the phenomenon of globalization was discussed at the World Economic Forum in 2019 under the theme "Globalization 4.0." Considering the issues discussed on this forum and what we experience today, the following subjects emerge in relation to the changes and stages that globalization has undergone.

a. **The stir in the economies of developing countries, particularly China:** With an executive position in the world after the collapse of the Eastern Bloc in the 1990s, the USA has "China," which became a growing power in the global economy particularly after the 2000s, as its rival. Considered to be a "plant hub" of the developed countries between 1980 and 2000, China began to shift upward on the economic ladder through its cooperation with the European Union, the USA, Japan, and Association of Southeast Asian Nations in many sectors in the 2000s and managed to become a global power by improving its relations in the Asia–Pacific region over time. This financial dynamism of China affected the developing countries that conduct business with it, particularly its neighbors. For example, having realized that it fell behind the rapidly growing China, India exhibited various financial signs of progress; in other words, China worked as a driving force for India. Meanwhile, China became an indispensable actor for both developed and developing countries. Due to its huge population potential, it achieved an undeniable position against the USA, the world's leading power. Moreover, a positive or negative development in China began to affect not only China but also the entire world. In today's world, China's strong position; the upward trends in the economies and demographics of other "developing countries"; and the future predictions revealed in various global reports (e.g., MGI 2019; OECD 2018; PwC 2017), i.e., "the positions of developing countries in the world will get stronger" necessitate the need of paying greater attention to developing countries.
b. **Changes in the trade of goods and services in the global economy:** McKinsey Global Institute's (MGI) report (2019) stated that developing countries, particularly China, which were previously considered only as economical hubs of production, developed a financial order surpassing the

assemblage of exported inputs and could produce end-products along with establishing its own supply chain; this report suggested that the rate of increase in merchandise export worldwide (i.e., the rate of merchandise export in gross income was 28.1% in 2007; however, it declined to 22.5% in 2017); the transition of global consumption from developed to developing countries (74% of the global demand came from developed financial regions and 26% from developing economies in 2007; according to 2030 forecasts, it is believed that 49% of the global demand will come from developed countries and 51% from developing countries); and the trade of services, such as telecom, information technologies, intellectual property, increased 60% more rapidly than the trade of goods are the most significant signs of this new financial order. These aspects reveal that today the trades of services and data flow have a considerable role in global trade compared with the trade of goods.

c. **The decreasing significance of production through cheap labor:** These developments in the service industry increased the need for qualified individuals in the world, which reduced the importance of cheap labor in global trade. R&D operations and investments in nonmaterial entities, such as brands and intellectual property, were more than doubled in terms of income share and rose from 5.5% in 2000 to 13.1% in 2016. Considering the data in MGI 2019 report that said, "only 18% of the trade of goods worldwide was from low-income countries to high-income countries, and more than 80% was from countries where high-cost employees were employed toward low-cost countries," it can be deduced that low-cost labor and competition (labor cost arbitrage), which left their mark on the concept of globalization in the 1990s and early 2000s, were no longer viable.

d. **The declining effect of globalization in the political and social areas, although its presence is still needed in the financial spheres:** Although no one wants to give up "the common market" in Globalization 4.0 because the money in circulation is not as abundant as it used to be, and the number of actors in the market has increased, the countries receiving the biggest share of the case tended to use all the benefits for themselves instead of sharing their gains with others. This aspect led countries to change their policies from "win–win" and "share and grow together" into "let me win first and you may win the leftovers if there are any" and "I do not want to share any longer as I shared enough" and to develop inward-oriented policies instead of global policies. Undoubtedly, immigration is one of the issues, which largely impacts political, social, and financial spheres, that has changed the balances. The incidents in the Middle East and the lack of life security for people living there triggered an immigrant crisis. However, many countries that managed to enhance their industries through supportive immigration policies in the 1980s abandoned "inclusive" policies and adopted "exclusionary" policies. Therefore, those who assert "my nation" rather than "multinationalism" came at the forefront in political arenas. It can be said that the notion of "globalization" as a political or a social ideology in the world is weakening and is being replaced by "nationalization." The following assertions made by the American president, "We spent 7 billion dollars in the past 20 years for the Middle East. What did we earn by it?" or the "wall" the USA is about to build on its Mexican border to prevent uncontrolled crossings and immigration movements revealed that even the USA, which is the most significant power that directed the world into globalization, is evolving into a different stance. Although the US President Trump gets much criticism, the support he receives from both his own nation and the bureaucratic system with his discourse of "America first, strong America" indicates that the current stance also reflects on social life.

e. **The effect of the tensions in trade relationships on global value chains:** The overall trend in commercial relations that prevailed during the previous years in the world was to abolish the barriers

among countries and encourage free trade, but now, "trade taxes" or "barriers to entry," which have recently come to the agenda, are the most significant indicators of the change in how globalization is understood. It seems that within Globalization 4.0, the world is evolving from a liberal approach to an approach that favors boundaries and bans. Aspects such as England's unresolvable knot of Brexit, the new regulations of NAFTA (the agreement between the USA–Mexico–Canada within NAFTA was renewed by the respective presidents of the countries in the G20 Summit in Buenos Aires in November 2018 under the name of "USMCA"), the ongoing threatening trade discourse between the USA and China create certain ambiguities in the field of global trade and disturb all the stakeholders of the global trade.

Mercedes–Benz's announcement that the new import taxes on automobiles imported from the USA to China will cause a loss in the sales of sports cars with high margins, Volvo's announcement to shift the manufacturing of their best-selling SUV to Europe to avoid the new customs levied by the USA on the imports from China, and BMW's announcement that they will have to increase the prices of the cars manufactured in South Carolina to overcome the 25% Chinese tax on the models manufactured in the USA are examples of disturbances that emerged due to the ambiguities in the global market. Additional examples are as follows: Ford's announcement that it accelerated its preparations to relocate its manufacture to other countries due to political ambiguities, as it may be faced with a cost of one billion dollars owing to high customs, disruptions in the supply chain, and emplacement in the case of a no-deal Brexit between England and the European Union; Nissan's announcement that it gave up its plan to manufacture a new model in England due to the ambiguities related to Brexit; or the statements of Tim Boyle, the President of Columbia Sportswear, in an interview with Bloomberg suggested that the tension and ambiguity between China and the USA became very detrimental, and it became tough to manage the supply chain of the company due to these additional taxes; they could not focus on their job because they were worried about what the following step was going to be, and all these processes would, unfortunately, reflect on consumers. In other words, in this stage of globalization, international companies have to change their fields of operation or price policies to deal with the obscurities encountered by them. This aspect causes local supply chains to become more prominent than ever before and causes global companies to move their investments toward "local supply chains."

f. **The growing digital economy across the world:** Today, the digital economy has become an irresistible necessity for all. Having emerged digitally, certain companies are now competing with the world's corporate giants that had appeared in the economic circumstances long before their emergence and even outdistancing them. The ranking of five e-trade companies (Amazon.com, Google/Alphabet Inc., Facebook, Alibaba, and Tencent Holdings) in the top ten list of the world's most profitable companies announced in 2018 (Duffin 2019), although they were younger than most of the remaining companies, is a clear evidence of the dominance of digitalization in global economy. By considering that internet-based companies are not the only stakeholders of the digital economy in the world, the shifting of banks and the retail industries to digital platforms, and the steady increase in their demands toward them, it is easy to see how digital economy has become inevitable.
g. **The hazard of global warming:** Climatic catastrophes caused by global warming have begun to penetrate worldwide, thereby becoming another critical issue. Today, natural disasters resulting from global warming can lead to massive losses in national economies, which force leading companies

to act more wisely and not pollute the world any longer, particularly during the manufacturing stage. Companies have to replace their previously employed low-cost manufacturing processes with costly but environmental-friendly methods. Even if the sales, particularly in the trade of "goods," are conducted digitally, some people have to manufacture these goods. Environmental-friendly manufacturing is, indeed, more expensive. However, if companies avoid this cost and the whole world does not make investments in the precautions to be taken for sustaining the environment, the costs that the business world does not want to endure for more profit at the moment will soon make the world uninhabitable, wherein money will no longer be valuable. This adverse scenario will lead to "climate immigrants" (a World Bank report of 2018 suggests that in 2050, 143 million people might immigrate due to adverse weather conditions resulting from climate change in their countries), and the consequences of such situations on the world will undoubtedly be massive.

EFFECTS OF GLOBALIZATION ON THE FIELD OF HIGHER EDUCATION

From the 1990s to the 2000s

Particularly after the 1990s (with the dominance of the capitalist order in the world led by the USA after the collapse of the Eastern Bloc and the developments in information/communication technologies), globalization exerted its influence worldwide (Kopp 2019; Varghese 2013). The developments in technology, transportation, and communication became the most significant driving forces of globalization and created the need for a qualified workforce. This made higher education institutions more evidently important. By aiming to build a qualified labor force and direct and support technological advancements, universities set their primary strategy in accordance with research-oriented investments and select and support students who are successful at national and international levels (OECD 2001). It was pointed out that in these years, institutions tended to regard students coming from abroad as "a source and brainpower that can produce knowledge," whereas students, in parallel, tended to prefer schools that were leading in their fields; supported their achievements; and provided scholarships and study in the fields of science, technology, and engineering (Choudaha 2017, 2018).

As it is today, in those days, the country that was the most preferred by international students was the USA, which also was the most important actor of both globalization and technological developments. In this stage, besides the policies that the USA implemented to support successful students and academics, the European region, another power in the world, was working toward enhancing knowledge sharing in the higher education domain at the international level. In line with this effort, the Erasmus program, initiated by the European Union in the early 1990s, offered free financial supports to higher education institutions in Europe to develop mutual projects and exchange students and academics. The Sorbonne Declaration (1998) laid the foundations of the Bologna Process to create a higher education field in Europe that had its own standards wherein the education systems were consistent or mutually complementary and could make them superior in the related fields of higher education. The Bologna Process officially began after the 29 European countries signed the Bologna Declaration in 1999. These efforts made by the European states reveal that "the exchanging of qualification and information" was at the forefront in the field of international higher education in those years.

The 2000s

The global economic crisis, the increasing influence of China in the international arena, and the September 2001 attacks can be seen as the most important developments during the 2000s. In the wake of the attack of September 11, 2001, the number of students coming to the USA declined sharply between 2001 and 2006 due to the restrictive policies that the USA implemented against certain countries, particularly the Middle Eastern countries. Disenchanted by the USA, these students availed the educational platforms in Canada, Australia, England, or Europe, where English was a native language. The economic crisis that commenced in 2006 and peaked in 2008 was one of the notable events of the 2000s. This crisis influenced the global world and showed its impacts also on higher education. The field of higher education that regarded students as a "source of information and brainpower" in the abovementioned period began to view them as a "financial source". In this period, the mindset changed from "attracting talented and intelligent students from all over the world" to "recruiting international students" (Choudaha 2017). As countries became more willing to create funds for themselves to mitigate the impacts of the financial crisis and as the financial benefits of the international higher education field (the students not only paid their tuition fees but also paid for all the expenditures during their stay aboard, including accommodation and living expenses) became more attractive, they became more inclined to "collecting students from the international arena." When the goal of reaping academic and social benefits from the process of internationalization was coupled with (and even, given more prominence by many institutions) their desire to have a larger share from this big pie, the domain of higher education grew all the more "competitive" in comparison to its previous stage. Owing to the increasing competition, the number of systems ranking universities in the international arena increased. The emergence of the leading ranking systems (e.g., ARWU 2003; THE, QS, Webometrics 2004; HEEACT, CWTS Leiden 2007; SIR, URAP 2009) in the 2000s and their increasing importance might be seen as an indicator of the escalating competition in the field of higher education.

The "spread" of higher education, which used to appeal only to "the elite," and the increase in the demand for higher education over the years (Figure 1) are essential issues that should be touched upon when trying to understand the processes that the field of higher education underwent. The demand for higher education, which followed the population increase in the world (Figure 2), also reflected on the number of international mobility of students (Figure 3). This mobility, which was regarded as the mobility of students in a small elite group, turned into a huge mass power between 1990 and 2010 (Brandenburg and De Wit 2011). Figure 4 represents not only the participation rate in higher education but also the rate of increase in the number of international mobility of students in these years.

The demand for higher education increasing in national and international domains and the awareness of the massive financial value this demand created were effective in institutions' changing their strategy in previous years from "research and student-oriented" to "market-oriented" (Gibbs 2001; Hemsley-Brown and Oplatka 2006; Jongbloed 2003). In this stage dominated by the impacts of the global financial crisis, the restrictions on the budgets of universities allocated by states were critical factors in the spread of the "market-oriented" viewpoint in the field of higher education (Mazzarol and Sautar 2012; Naidoo 2003; Turner and Holton 2015). The stances of universities, which were directed to rely on students instead of states as the source of income, toward education and teaching differed consequently, thereby resulting

in to admitting students under simpler conditions (Chouhada 2017; Redden 2013) and employing low-quality academics (Altbach, Reisberg and Rumbley, 2009) began to emerge as the results of this tendency. Another noteworthy change in this stage that emerged as a result of the strategies implemented is that business administration faculties became more prominent compared to the fields of science, technology, and engineering, which were the most popular fields in previous years (Choudaha 2017, 2018).

Figure 1. Higher education enrollment
Source: Prepared by author, using data from UIS (2019) and World Bank Data (2019)

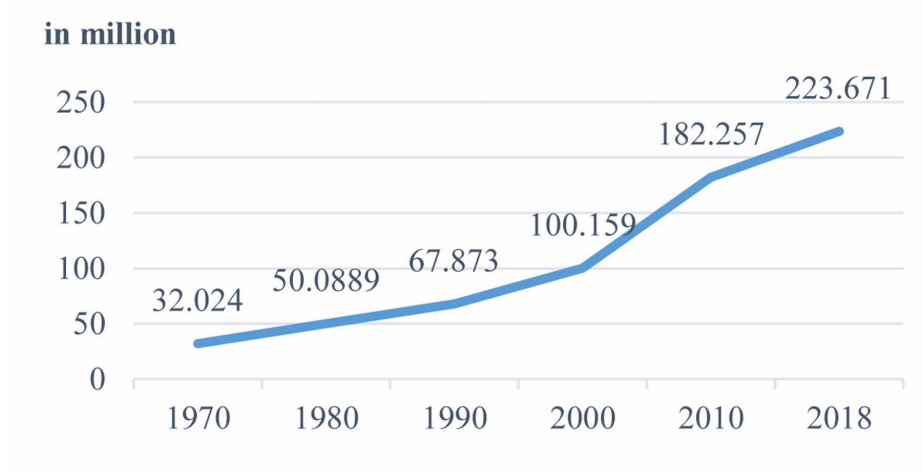


Figure 2. World population
Source: Prepared by author, using data from UIS (2019) and World Bank Data (2019)

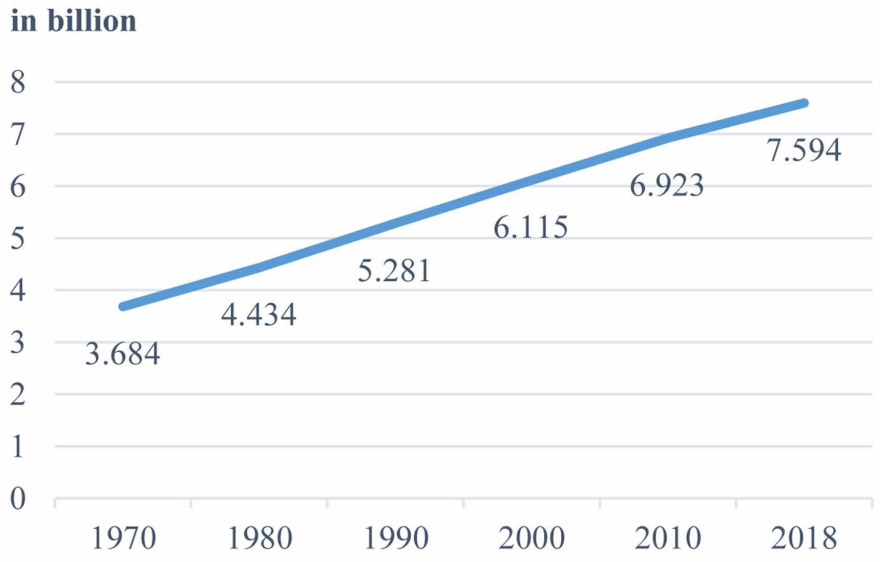


Figure 3. International student enrolment
Source: Prepared by author, using data from UIS (2019)

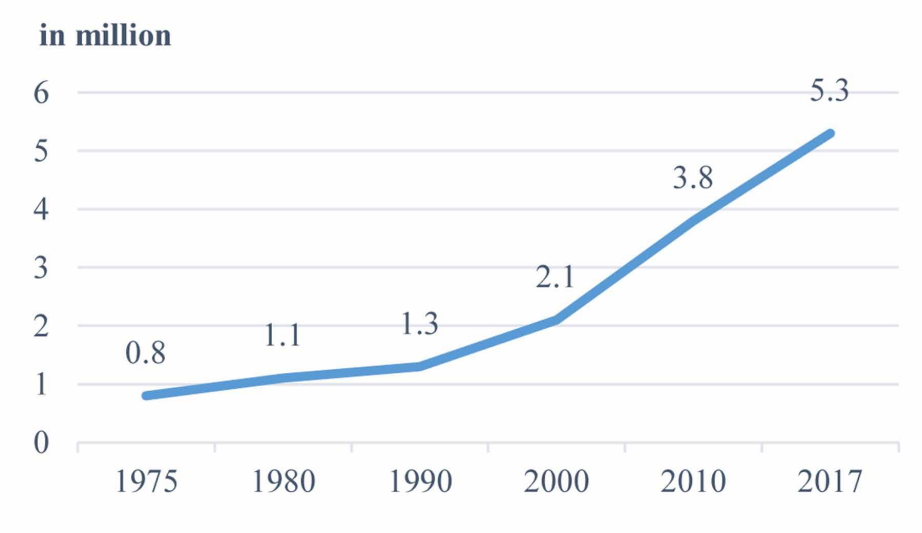
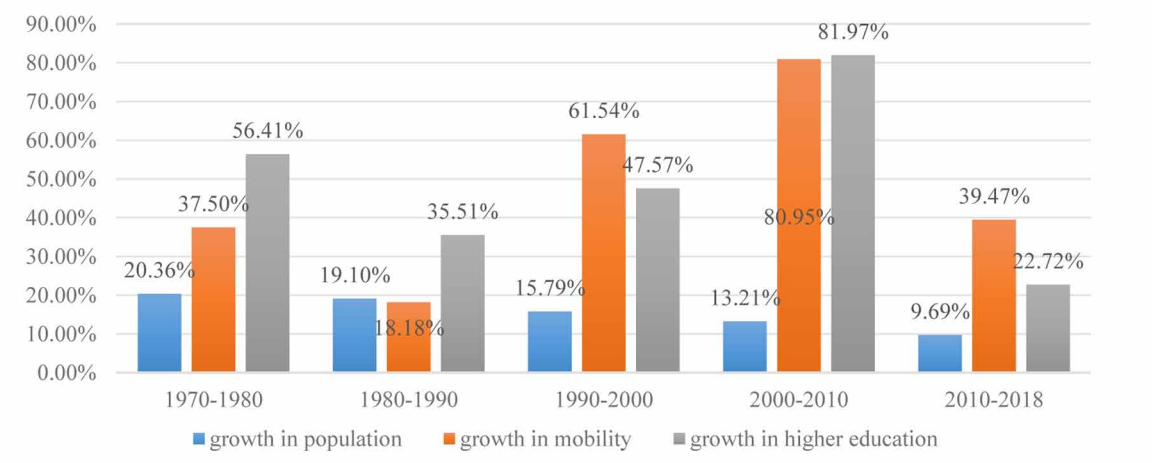


Figure 4. Change in the rates of student mobility, world population, and higher education enrolments
Prepared by author, using data from UIS (2019) and World Bank Data (2019)



After 2010

The integral role of the Internet and social media in life, the unceasing development of technology, the increase in the effects of global warming, the developments in the Chinese economy, England's efforts to quit the European Union and the lack of clarity in the situation, Trump's nationalistic discourse, the trade wars between the USA and China, the clash environment in the Middle East, and the refugee question can be listed as the most critical incidents in the previous years. Different from the other stages, these recent developments and changes brought several phenomena to the field of higher education. The field

of higher education had to follow these and act innovatively to progress along with the changing world and consider the following differences ushered in by the new world order while analyzing their strategies:

a. ***Changes in ways in which students make their university choices:*** Students were usually supported financially by universities in the first stage, and they were willing to fund themselves and were confident that they will get the worth of their money in the second stage, but nowadays, they have grown more "skeptical" with the education opportunities offered by technology. Students can now procure certificates and diplomas by participating in a massive open online course worldwide and access online databases to search for all sorts of information. Several aspects that they are curious about while making their choices are at their disposal, and they can easily access information about a university or department of their choice, read comments of universities' or departments' alumina, and find out the international ranking of the universities of their choice. Hence, the digitized teaching setting, which continues to develop, raises questions in the minds of students regarding the sufficiency of the traditional system. Therefore, because pursuing higher education is becoming more common every year and the demand for higher education is increasing not only among the rich but also among the middle class, "the costs born for the sake of education" becomes a significant criterion for a wider community. In other words, higher education institutions are now challenged by students' who view a university diploma from a different perspective and question whether it is necessary to move across countries to get the required information, whether it is meaningful to spend four years to get a diploma, and whether it is worth the costs. Moreover, students are open to different perspectives, are triggered by social media, aspire to study at a university abroad and experience new things, but they seem to be interested in destinations that are "newly emerging and are less expensive" rather than "traditional and expensive" destinations.

In fact, in addition to the opportunities presented by technology in the world of education, the shrinkage in employment opportunities causes the ratio between "the money spent for education" and "the opportunities that one will get after graduation" to become more prominent than other stages (ICEF 2017, 2019; Jones 2014; Watkins and Smith 2018). While making choices, students give equal weightage to the quality of education and career opportunities that they will procure after graduation (Choudaha 2017; Schulte and Choudaha 2014). The Erasmus program, which began in the 1990s in the field of higher education in Europe and still continues, started offering "internship opportunities" under "Erasmus+" since 2014, thereby revealing the extent to which "employability" is prioritized. Another indicator that suggests that the students prioritize employment in recent years is the demand of the students coming to the USA for university education to get Optional Practice Training (OPT). Even though the conditions for getting an OPT in the USA, which has the most significant share in the field of international higher education, became harder—due to the belief that it damaged the national job market in the USA in recent years (ICEF 2019; Anderson 2019)—the fact that the increase in the number of students getting the OPT was higher than the increase in the number of total international students exhibits the demand among international students to benefit from the job opportunities offered by the country they study in.

b. ***The changing shares in international higher education:*** It was observed that the students who seek to attend a university outside their home country now not only consider prestigious traditional destinations but also destinations where they can complete their education at lower costs; destinations that are situated at a closer proximity and where they can feel more secured; and destinations

where they are not subjected to visa restrictions, racist discourses, exclusion, etc. (Choudaha 2018; Najar and Saul 2016). Recent studies (e.g., ICEF 2017; Kondakçı, Bedenlier and Zawacki-Richter 2018) stated that the political turmoil in the world (Trump's visa policies, the USA–China conflict, tensions in England due to Brexit, and conflicts in the Middle East) direct students who wish to continue their higher education in the international domain to the countries where they feel socially associated while making their choices. All these social and political issues affect the shares in the field of international higher education and lead to the emergence of new and regional domains of higher education.

Table 1. The change in the rates of international students and OPT between 2010–2019

Year	OPT	Annual	Total International	Annual
		% Change	Students	% Change
2010–11	76.031	12,13%	723.277	4,68%
2011–12	85.157	12,00%	764.495	5,70%
2012–13	94.919	11,46%	819.644	7,21%
2013–14	105.997	11,67%	886.052	8,10%
2014–15	120.287	13,48%	974.926	10,03%
2015–16	147.498	22,62%	1.043.839	7,07%
2016–17	175.695	19,12%	1.078.822	3,35%
2017–18	203.462	15,80%	1.094.792	1,48%
2018–19	223.085	9,64%	1.095.299	0,05%
Average		**14,22%**		**5,30%**

Source: Prepared by author, using data from IIE 2019

A review of current data showed that the leading destinations lost their shares, and the number of students coming to China is increasing every year (MOE 2019). Although the USA still holds a leading position in the field of international higher education, the rate of increase in the number of students has been declining recently. The rate of increase in the number of international students fell from 7.1% in 2015–2016 to 3.3% in 2016–2017 and further to 1.5% in 2017–2018 (IIE 2018). While the share of the USA in the international field was 28% in 2001, it fell to 22% in 2006 (UNESCO 2017). The rate of increase in the number of students coming to England has been stagnant since 2012 (Marginson 2018; Redden 2018; Study in UK 2019). The increased share of Canada and Australia in higher education due to their moderate immigration policies and political discourses, unlike the USA and England (ICEF 2017), is an example of ways in which incidents occurring globally impact the field of higher education.

Although the visa policies implemented by the USA and England, the Brexit process, China's economic development, the discriminatory attitudes against the international students from non-Western countries that have been discussed in several studies (e.g., Barnett, Lee, Jiang and Park 2016; Heng 2017; Li and Bray 2007) stand as critical points that may account for the changes in these numbers, the abovementioned cost factor, which becomes prominent in how students make their choices, is an element that should not be forgotten. Table 2 presents the total number of international students in the USA in the past four years, the number of students from the six countries from where the USA receives the

Table 2. Change in the students' rates of six sending destinations in the case of the USA

Years	2014–2015	2015–2016	2016–2017	2017–2018	2018–2019
USA total	974.926	1.043.839	1.078.822	1.094.792	1.095.299
% change		7,1%	3,4%	1.5%	0,05%
China	304.040	328.547	350.755	363.341	369.548
% change		8,1%	6,8%	1.5%	1,7%
India	132.888	165.918	186.267	196.271	202.014
% change		24,9%	12.3%	5.4%	2,9%
South Korea	63.710	61.007	58.663	54.555	52.250
% change		−4.2%	−3.8%	−7.1%	−4,2%
Saudi Arabia	59.945	61.287	52.611	44.432	37.080
% change		5.9%	−14.2%	−15.5%	−16,5%
Mexico	17.052	16.733	16.835	15.468	15.229
% change		−1.9%	0.6%	−8.1%	−1,5%
Turkey	10.724	10.691	10.586	10.520	10.159
% change		−0.3%	−1%	−0.6%	−3,4%

Source: Prepared by author, using data from IIE 2019

highest number of students, and the changes in these numbers between 2014 and 2019. The numbers in this table can be interpreted as an expression of the changes in the field of higher education.

Another reason for the change in the shares in the field of higher education is that sending countries began establishing their own higher education hubs. Increased population in developing countries ushered in a demand for higher education that in turn triggered the supply of higher education in those regions. For instance, the number of students enrolled in higher education in Turkey rose from approximately 500,000 in the 1990s to 5,139,469 in 2003 and then to 7,560,371 in 2018. The number of universities in the country increased from 30 in the early 1990s to 76 in 2001 and 202 in 2019 (HEC 2019). Thus, the demand created its supply, and the supply enhanced the dynamism. This increasing dynamism decreased the rate of the students searching for alternatives in abroad and revitalized the demand from the neighboring countries. The dynamism in the countries that stand out in the field of international higher education, such as China, South Korea, South Africa, Hong Kong, Singapore, Mexico, and Turkey (Ng 2012; Wen and Hu 2019), is primarily affected by the internal dynamics of the countries and the fact that they are considered to be more integrated, developed, and reliable in their respective regions (Lee and Sehoole 2015). All these factors designated new directions for student mobility, which was restricted in the past, i.e., "from the East to the West" or "within the West."

Although the change in the sharing of the international higher education area is noticeable, whether this aspect will prove to be a full-fledged transformation is uncertain. It appears that these regional hubs attract students with the opportunities they offer in their immediate vicinity and consume small slices from the shares of bigger higher education hubs. This demand, which is now described as a trend and usually considered as the second choice of students (Altbach 2007; Jon, Lee and Byun 2014; Kondakçı et al. 2018; Wen and Hu 2019), can become the first choice of students in the near future and turn into a permanent rather than a fragile demand if financial and political stability is ensured by these newly emerging hubs.

CONCLUSION

The literature emphasized that globalization resulted in the emergence of the concept of "internationalization" in higher education (Altbach, 2007; Teichler, 2009). The acknowledgment of globalization as the main driving force of internationalization implies that every development in the global world would be reflected in higher education. With regard to this, this study tried to ascertain the stages of internationalization since the 1990s to the present day as well as its contemporary perspectives in parallel to global developments and changes. Even though the main actors dominating the global order have not yet been drastically altered, the fact that how China was to be positioned in the world was discussed in the NATO summit in December 2020, and the projections that the global consumption shares and GDPs of developing countries will be larger than those of the developed countries, as indicated by the financial projections presented by various institutions (e.g., IMF 2019; MGI 2019; OECD 2018; PWC 2019), are indicators that the present world order has begun to evolve into a multipolar order. This change toward a multipolar world order revealed its effects in the higher education's field. Even though traditional destinations maintain their leading positions, the decline or stagnation observed in the number international students in these countries and the increase in the number of international students in countries such as South Korea, South Africa, Hong Kong, Singapore, Mexico, Turkey, and China, in particular, stand as indicators of a change in the shares in the field of higher education.

The supply of higher education, which emerged in parallel with the higher education demand in developing countries, created "less costly alternatives" for students who wish to study abroad. The fact that living and education costs in these newly emerged alternative destinations are lower than the popular destinations in developed countries is a factor that affects the students' choices. The changes in the shares in the field of higher education have significant effects on the changes in the decision-making mechanisms of students and the result-oriented stance toward graduation, i.e., comparing the money spent with the benefit obtained from an offered diploma. Considering the fact that both the demand for higher education and the number of students' mobility increased at a higher rate in countries below the high-income group and that most of the total demand comes from these countries, the extent to which the factors of "cost" and "employment" are significant becomes evident once again.

Although the international student mobility continues to increase, the students' needs and profiles are ever-changing. We are in a process where students prioritize the cost–benefit relationship and the job opportunities that they are to be provided with and institutions prioritize utilizing the opportunities provided by technology; therefore, new teaching models became a necessity. Traditional higher education destinations have been witnessing the emergence of new destinations that particularly develop regionally and usher in a fresh perspective to the existing competition. These new actors, which can develop strategies by analyzing all these changes, might emerge as permanent rivals against the major countries dominating this field.

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Chapter 18
Development of Environmental Taxes in The European Union in The Globalization Process: The Case of Croatia

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ABSTRACT

Unfortunately, people harm the environment as a result of their economic activities. The deterioration of environmental balance and global climate changes in the world as a result of this destruction give the awareness of environmental protection prominence. Many organizations operate on a global scale to protect the environment and return it to its former natural balance. In this context, the European Union (EU) is one of the communities that care about the environment. There are important operations for environmental protection within this community. Environmental tax is a good example of tools determined for use in protecting the environment. As is known, Croatia is the latest country to join the EU in 2013. To reveal the importance the EU attaches to environmental protection, environmental tax practices, the development of environmental taxes before and after its EU-membership in Croatia are analysed. Besides, the course of environmental taxes in Croatia from 2002 to 2018 is evaluated in the study.

INTRODUCTION

The environment can be defined as the setting in which people live or as the totality of all physical, chemical, biological and social factors that have direct or indirect effects on living beings and human activities (Keleş and Ertan, 2002: 14). Then, in general, environmental problems are caused by the ex-

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ploitation of the environment by humans with the motive of making a profit and putting his/her interests above the common interests of society (Geray, 1991).

Especially in the 20th century, the rapid development of industrialization, intensive use of fossil fuels, the steep increase in the population growth rate, unplanned urbanization and unlimited use of natural resources have engendered destructions in the environment. Besides, with the effect of globalization, global warming, depletion of the ozone layer, desertification, environmental pollution, biodiversity reduction, deforestation and global climate changes have started to increase and environmental problems have emerged.

In today's world, it needs to be emphasized that environmental problems have reached national or regional but global dimensions, that is they are problems that concern the whole of society. In this regard, it has become clear that in solving environmental problems the states are not sufficient on their own and therefore, an approach based on a global partnership must be embraced. At this point, it is possible to state that international organizations, primarily the European Union (EU), devise environmentally friendly policies.

Along with the increasing environmental problems at the global level, arrangements should be made to protect the environmental/natural resources, to ensure the ecological balance and to protect the environment for bequeathing a livable clean environment to future generations (Tekin and Şaşmaz, 2016: 2). Accordingly, environmental protection is defined as *"the sum of all practices aiming to prevent the destruction, deterioration or disappearance of sustainable values and the ecological balance, to remedy current deteriorations, to improve and develop the environment and to prevent environmental pollution"* (Erkul, 2012: 1).

Countries use various tools to protect the environment and to prevent environmental pollution and harmful behavior towards the environment. The most common and effective of these instruments is the instrument of taxation, namely environmental taxes. Combatting environmental problems has revealed the necessity of taxes. The important thing in environmental taxes is the protection of the environment and the EU has also made important contributions to this end. Moreover, environmental taxes are not only an effective tool of environmental protection policies but also an important source of income for the public.

Since environmental problems are experienced in global dimensions, the effectiveness of environmental taxes too should be ensured through international coordination in addition to national and regional measures. In this context, the EU is one of the communities that attach importance to the environment. There are important operations for environmental protection within this community. Croatia, which is within the scope of our study, is the latest country to join the EU in 2013. To reveal the importance the EU attaches to environmental protection, our study examines the environmental tax practices and the development of environmental taxes before and after its EU-membership in Croatia, as well as the importance the EU attaches to environmental protection. Besides, the study aims to evaluate the course of environmental taxes in Croatia between 2002 and 2018.

ENVIRONMENTAL TAXES IN THE GLOBALIZATION PROCESS

The developments experienced with globalization and communication technologies have significantly affected the social, political, economic and financial structures of countries. Accordingly, the increase in the production and consumption activities in the world, together with the globalization process, affect

our environment negatively. These effects lay bare before us the necessity of protecting the environment, that is, removing/minimizing current pollution in the environment. Of course, environmental taxes are of great importance in reducing negative impacts on the environment.

Environmental taxes are effective in all kinds of activities between production and consumption and by providing the balance between production and consumption, they form preferences (Yıldırım, 2012: 25). Among the environmental taxes, some taxes try to prevent water and air pollution and a carbon tax on fossil fuels which is meant to reduce the impact of global warming (Akkaya, 2004: 3). However, if environmental taxes are examined in general, it is possible to see that under this heading there are many taxes. In this context, environmental taxes may concern energy products, transportation vehicles and transportation services, measured or predicted air and water emissions, substances damaging the ozone layer, water pollution, waste management and noise pollution, and, besides, resources such as water, soil, forests, biodiversity, wildlife and fish stocks (Polat, 2014: 13).

Environmental taxes offer solutions specific to environmentally hazardous items. There was also a need to offer further different solutions. Besides, since the production and consumption ways of the countries are unique to them, environmental taxes can be applied according to the economic methods of the countries (Akar, 2012: 218).

Since the 1980s, with the impact of globalization, it is seen that environmental problems have come to the fore with the emphasis on the destruction in the environment caused by economic development. In this context (Özdemir, 2009: 7), when considering premises such as:

- Despite significant economic costs, the rules laid down are not able to tackle environmental problems,
- The failure to apply the 'polluter pays' principle effectively enough,
- The desire to internationalize the environmental costs by reflecting these on prices,
- The need to integrate environmental policies with other policies,
- The need for less costly and more flexible devices for environmental progress,

it is possible to see that environmental taxes have seen an upward trend. There have also been significant developments in the area of environmental taxes. These regulations, also known as green tax reforms, were completed through three stages (Yıldız, 2005: 163):

- Elimination of tax distortions,
- Restructuring of existing taxes,
- Introduction of new environmental taxes.

Besides, the most important goals in environmental taxes are preventing the use of harmful raw materials and the production fo polluting substances by increasing the prices, ensuring that individuals or institutions are more sensitive towards the environment, providing incentive function, and procuring financial resources (Yıldız, 2005: 164). Furthermore, the main purpose of this tax is to protect the environment, that is, to mitigate harmful behaviors against the environment. In this context, the scope of an environmental tax should ideally be as wide as the scope of the environmental damage (OECD, 2011: 5).

It is also necessary to state that the environmental taxes aim to prevent the damage caused by industrial activities to the environment by reducing the economic activities that directly or indirectly pollute the environment and to encourage environment-friendly production and consumption methods, and

to reflect the cost of prevention to individuals and businesses that cause the environmental damage in question (Özdemir, 2009: 13).

It should be ensured that environmental tax is directly charged as often as possible on environmentally harmful contaminants or action (OECD, 2011: 4). Besides, environmental taxes consist of pollution charges on the harmful waste materials and emissions released to the environment as a result of activities polluting the environment and pollution taxes the state imposes without any services offered in-exchange to bring a financial burden on those who pollute the environment, based on its sovereign power (Dağdemir, 2012: 173).

Environmental taxes, on the one hand, eliminate economic externalities, on the other hand, have a double dividend feature by helping to reduce the tax burden on other elements (Özdemir, 2009: 14). Furthermore, it can be stated that environmental taxes have many important advantages such as environmental efficiency, economic efficiency, the ability to increase public income, and transparency (OECD, 2011: 1).

The general characteristics of environmental taxes aimed at reducing environmentally harmful behavior are as follows (Ekins, 1999: 42):

- Environmental taxes increase the costs of goods, services or activities that harm the environment.
- Environmental taxes create incentives for manufacturers and consumers to avoid environmentally hazardous behavior.
- Manufacturers contribute to equalizing the marginal cost of environmental improvement.
- It can encourage manufacturers to innovate in the short term.
- While increasing tax revenues, it is possible to affect the economy positively by reducing the tax burden on labor and capital.

Environmental taxes eliminate economic externalities and provide the necessary economic guidance by increasing the cost of environmentally harmful goods, services or activities. In other words, they refer producers and consumers to activities and technologies that are not harmful to the environment (Ferhatoğlu, 2003: 2).

EU'S ENVIRONMENTAL TAX AWARENESS

The EU is at the forefront of the most important institutions that systematically tackle global environmental problems and devise policies. On environmental problems, the EU tries to be effective through its standards, policies and rules and by establishing close relations with other non-member states (Aydın and Çamur, 2017: 27). Besides, it is possible to say that the EU operates on environmental problems in many fields such as politics, economics, and ecology.

The importance of the EU's policies on the protection of the environment and natural resources has increased since the 1980s. This indicates that unity is needed due to the importance of implementing practices such as eliminating and controlling environmental threats and environmental degradation (Aydın & Çamur, 2017: 28).

Among the main targets of the environmental policies of the EU, which began devising environmental policies in 1972, there are the following: Preventing the problem at its source, avoiding activities that distort the ecological balance, adopting preventive environmental protection policies, minimizing the

use of natural resources and using these rationally, integrating environmental policies with economic and social development, adopting the 'polluter pays' principle (Özsoy, 2003: 3), always keeping the environment in mind, eliminating, reducing and preventing environmental pollution (Turan Bayram et al., 2011: 34), protecting public health, taking measures at the local and global scale regarding environmental problems, the necessity of protecting the environment for future generations, increasing environmental quality, and ensuring sustainable development.

EU defines environmental taxes as '*taxes that take as their tax base an environmentally hazardous unit or a part of it*' (Ulucak and Erdem, 2012: 84). According to this definition, among the possible tax bases of environmental tax there are toxic gas and water emissions, energy products, transportation, wastewater, agricultural inputs, wastes, products harmful to the ozone layer and pollution (Ferhatoğlu, 2003: 3).

Global environmental problems were voiced for the first time the United Nations Conference on Human Environment held in Stockholm in 1972, organized by the United Nations. EU, which is an important international organization in its continent, adopted the ideas on environmental awareness at this conference and started to devise environmental protection policies (Cural & Saygı, 2016: 78). Many Environmental Action Plans have been implemented, starting in 1973. Per these plans, policies on reducing pollution, tackling noise, cooperation with international organizations, preventing water pollution, reducing air pollution, coordinating environmental policies with other policies, common responsibility principle in environmental protection, climate change, natural resources and recycling of waste have been devised (Turan Bayram et al., 2011: 34-35).

In 1992, with the Maastricht Treaty, the principle of sustainability in environmental policies was adopted and growth based on environmental awareness was targeted (Erdem and Yenilmez, 2017: 96).

Measuring and taxing carbon emissions to reduce carbon emissions polluting the environment, influenced by the Kyoto Protocol agreed in 1997, was made policy as part of the scope of environmental tax reform within the EU (Barker et al., 2007: 6281).

Eurostat is the EU's agency responsible for statistics. This agency has adopted the classification of environmental taxes as energy taxes, transport taxes, pollution taxes, and natural resource taxes. According to Ekins and Speck (1999: 370), products such as fuel used in transportation, electricity, natural gas, and coal used in production and consumption in the manufacturing industry are within the scope of energy taxes. Besides, the sale or use of motor vehicles refer to transport taxes. Matters such as wastewater, noise and solid waste are part of pollution taxes. The natural resource tax is levied on the rental prices of oil or mineral deposits (Ferhatoğlu, 2003: 3-4).

DEVELOPMENT OF ENVIRONMENTAL TAXES IN CROATIA

Croatia declared its independence in 1991. Croatia's candidacy for EU membership was accepted in 2003 and full membership negotiations began in 2005. After its membership negotiations were completed in 2011, Croatia became the latest country to join the EU in 2013 (Glüpker, 2013: 226-227; Ministry of Trade, 2018: 8).

The EU is a union that cares about the environment and carries out important policies for environmental protection (Cural and Saygı, 2016: 78). In this context, to examine whether there is any change in environmental awareness and environmental policies with the membership of Croatia to the EU, the

development of environmental taxes in Croatia between 2002 and 2018 will be evaluated in comparison with the EU averages.

Table 1 shows the total environmental tax revenues between 2002 and 2018 both in Croatia and the EU. Accordingly,

Table 1. Total Environmental Taxes (million Euros)

Years	European Union	Croatia
2002	264.325,92	1.000,29
2003	270.817,46	1.098,92
2004	282.196,95	1.156,28
2005	288.844,85	1.219,34
2006	297.107,2	1.310,95
2007	305.133,23	1.378,63
2008	299.302,16	1.369,74
2009	290.546,9	1.261,53
2010	305.620,8	1.368,87
2011	318.851,38	1.200,72
2012	329.402,39	1.124,97
2013	335.032,11	1.248,92
2014	346.553,72	1.379,96
2015	362.839,4	1.503,4
2016	367.835,01	1.625,96
2017	371.790,68	1.730,29
2018	381.381,85	1.853,35

Source: (Eurostat, 2020)

Environmental tax revenues in Croatia were 1.000,29 million Euros in 2002, compared to 1.124,97 million Euros in 2012 before EU membership. In this decade, environmental tax revenues grew by 12.4%. In 2013, when Croatia became a member of the EU, environmental tax revenues were 1.248,92 million Euros, which increased to 1.853,35 million Euros in 2018. Croatia's total environmental tax revenues increased by 48.3% after five years of EU membership. This data tells us that after the EU membership of Croatia, the total environmental tax revenues increased faster.

Compared with the EU data of the same periods, in the EU, total environmental tax revenues increased by 24.6% from 2002 to 2012. From 2013 to 2018, they increased by 13.83%. From 2002 to 2012, the increase in total environmental tax income in Croatia remained below the EU average. With Croatia becoming an EU member, the total environmental tax revenue increase in the 2013-2018 period was 3.7 times higher than the EU total environmental tax revenue.

The high share of environmental taxes in total tax revenues is an indication of the fact that environmental protection awareness has reached a significant level in the country in question. In Table 2, In Croatia, the share of environmental taxes in total tax revenues decreased from 9.31% in 2002 to 7.13%

in 2012, which was the year before it became an EU member. With the EU membership in 2013, this rate was 7.86% and continued to increase over the years and reached 9.31% in 2018.

In the EU, the share of environmental taxes in total tax revenues was stable between 2002 and 2018 with shares between 5.87% and 6.57%. In both pre-membership and post-membership periods, the share of environmental taxes in total tax revenues in Croatia was higher than that of the EU.

One of the indicators that reveals the level of environmental protection awareness in a country is the ratio of total environmental taxes to GDP. In Table 3, this rate decreased in years to 3.56% in 2012, while it was 3.51% in 2002 in Croatia. While it was 2.86% in 2013, the year that Croatia joined the union, it increased up to 3.59% in 2018.

When the situation of this ratio in the EU is examined, it can be said that it was stable between 2.29% and 2.56% between 2002 and 2018. In comparing Croatia and EU data within the scope of the said ratio, it was observed that the ratio of total environmental taxes to GDP in Croatia was higher than in the EU between 2002 and 2018 and it continued its increasing trend.

Table 2. Share of Environmental Taxes in Total Tax Revenues

Years	European Union	Croatia
2002	6.57	9.31
2003	6.62	9.64
2004	6.58	9.49
2005	6.41	9.22
2006	6.19	8.86
2007	5.98	8.46
2008	5.87	7.74
2009	6.14	7.68
2010	6.19	8.44
2011	6.2	7.62
2012	6.18	7.13
2013	6.17	7.86
2014	6.17	8.66
2015	6.16	9.03
2016	6.15	9.23
2017	6.01	9.32
2018	5.95	9.31

Source: (Eurostat, 2020)

Table 3. The Ratio of Total Environmental Taxes to Gross Domestic Product (GDP)

Years	European Union	Croatia
2002	2.53	3.51
2003	2.56	3.58
2004	2.54	3.45
2005	2.49	3.34
2006	2.42	3.26
2007	2.35	3.13
2008	2.29	2.85
2009	2.36	2.8
2010	2.38	3.03
2011	2.41	2.68
2012	2.44	2.56
2013	2.46	2.86
2014	2.46	3.18
2015	2.44	3.37
2016	2.45	3.49
2017	2.41	3.52
2018	2.4	3.59

Source: (Eurostat, 2020)

CONCLUSION AND EVALUATION

Unfortunately, people harm the environment as a result of their economic activities. The deterioration of environmental balance and global climate changes in the world as a result of this destruction give

the awareness of environmental protection prominence. Many organizations operate on a global scale to protect the environment and return it to its former natural balance.

Environmental issues are not problems merely affecting the past or the present. It should be noted that with the measures taken here, this problem can not be eliminated. The important thing is to protect the environment and to ensure the enforcement of environmentally friendly policies. This is possible by informing and raising awareness in society correctly.

With the measures taken, countries cannot devise policies with individual environmental problems and pollution. Therefore, to be successful in the field of environmental problems, all countries need to devise and implement policies together. Many organizations on an international scale devise many policies and adopt practices in the field of environmental problems. The EU is one of these organizations that have an important place among these.

In this context, considering the development of environmental taxes in Croatia and the EU between 2002-2018, total environmental tax revenues increased in both Croatia and the EU. However, in Croatia, after becoming an EU member in 2013, the increase in total environmental tax revenues until 2018 was faster, increasing at a high rate of 48.3% in this period.

When the shares of total environmental taxes in total tax revenues are analyzed, it is observed that this ratio is higher in Croatia than the EU in every period. On the other hand, when we examine this ratio in Croatia, it is understood that it had a decreasing trend from 2002 to 2012. After Croatia became a union member in 2013, it is observed that this rate gained momentum and entered an increasing trend until 2018.

When considered together with another indicator, the ratio of total environmental taxes to GDP, it can be stated that the EU rate was is in a stable period in the relevant period. It is seen that the rate in Croatia is higher than the rate in the EU every year. Regarding Croatia, the relevant ratio has shown a downward trend from 2002 to 2012, and after becoming a member of the union in 2013, it demonstrated an upward trend until 2018.

When these rates are evaluated together, it is understood that the EU has a certain degree of environmental protection awareness. In Croatia, it is seen that there was a significant level of environmental protection awareness in the period preceding its EU membership. Even the data of Croatia before becoming a union member were above the EU data. Besides, EU membership has made important contributions to Croatia's environmental protection awareness. Per the EU's environmental protection policies, the total environmental tax revenues and other data from the period between 2013, when Croatia was a member of the union, and 2018 exceeded the EU averages and showed an ever-increasing trend.

As environmental awareness has taken root in European countries, it has enabled the Union to take a leading role in environmental issues. The implementation of the EU's environmental policies by member countries and these setting an example to other countries have also increased the importance of the policies implemented.

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KEY TERMS AND DEFINITIONS

Climate Change: It is the emergence of changes in the current climate system due to reasons such as internal and human effects, periodic activities of the sun, and greenhouse gases.

Ecological Balance: It refers to all the conditions necessary for human beings and other living creatures to continue their existence and development per their natural constitution.

Environmental Problems: Desertification, reduction of biodiversity, deforestation, destruction of the ozone layer, acid rains, air, water and soil pollution, hazardous wastes, depletion of natural resources, sea and ocean pollution and acidification of the oceans constitute environmental problems.

Eurostat: It is a general directorate within the European Commission and headquartered in Luxembourg. The main purpose of the institution is to provide statistical information to the European Union through surveys carried out across Europe.

Kyoto Protocol: It is the only international framework directed to combat global warming and climate change. It was signed within the United Nations Framework Convention on Climate Change.

Pollution Taxes: They are the taxes within the EU the tax bases of which include items such as wastewater, noise, and solid waste.

Transport Taxes: This term refers to taxes within the EU levied on the sale or use of motor vehicles.

Chapter 19
The Impact of Global Economy and Global Liquidity on Domestic Economic Growth

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ABSTRACT

Economic globalization has considerably accelerated in recent years. Therefore, they are expected that developments in the global economy have an impact on domestic economies. The chapter aims to analyse empirically the effects of global economic growth, global import demand, and global liquidity on Turkish economic growth. The method of the study is NARDL. The analyses include the 1987-2019 period. According to the empirical results, the growth in global economic output and global import demand has a positive effect on Turkish economic growth. Interestingly, the contraction in global economic output and global import demand also increases more strongly Turkish economic growth. In addition, while the increase in global liquidity has a positive effect on Turkish economic growth, the effect of the decrease in global liquidity is statistically insignificant.

INTRODUCTION

Countries' cooperation with each other, more generally, the subjects connecting countries have increased significantly in the last three decades. This is the result of globalization. Globalization causes that the development in one country affects other countries quickly and strongly. There are several forms of globalization. In the literature on globalization, economic, socio-cultural, and political aspects of globalization are most emphasized (Held et al., 2000). However, globalization is often portrayed as an economic phenomenon (Giddens, 2006: 50). Economic globalization is the result of three processes generally referred to as globalization of production, financial globalization, and commercial globalization (Bayraktutan, 2003). In these three processes, the rise and accelerate in short-term international

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capital, foreign direct investment (FDI) and foreign trade have increased the economic dependence as well as the economic relationship between countries. As a reflection of this, it is expected that the countries could be affected by the situation of countries that have strong economic relations or the global economy. Therefore, it would be an important deficiency ignoring external factors in the analysis of the determinants of domestic economic variables.

When an evaluation is made in the context of economic growth, the mainstream growth theories assert domestic variables as the source of economic growth. However, the fact that globalization approximates the economies of the country with each other has altered this opinion. Accordingly, models that take into account external factors in domestic economic growth have begun to be created. The studies investigating the effect of external factors on economic growth can be separated into two groups. In the first group, the impacts of some external variables on economic growth are investigated. These are factors such as FDI and financial capital movements, export and import, foreign remittances. The approach in the second group, which this paper also adopts, explains the economic growth with reference to the synchronization of business cycles in the global economy. According to this approach, liberal policies have increased international commercial and financial connections between countries. These relations, which increase with globalization, cause various spillovers among countries (Köse et al., 2003: 57). Based on this view, it is stated that global output growth or liquidity expansion will also have an impact on domestic economic conditions. Accordingly, while international trade is positively affected during the global economic growth, the demand shrinking in the global economy in the global economic crisis affected many emerging economies negatively. Similarly, while foreign capital inflows to developing countries increased during the global liquidity expansion, increases in global interest rate canalize international funds to developed economies. In this context, this paper aims to investigate the impact of the global economic situation on economic growth in Turkey. More specifically, this study aims to analyse empirically the impact of global growth, global import demand, and global liquidity on the Turkish economy. The studies which investigate the impact of global or external variables on Turkish economic growth, almost all are in the first group that above-mentioned. This study will add originality to the literature with this feature.

The countries benefit from increased international economic relations in the global economic expansion era, they were left in a much more difficult situation with the reversal of commercial or capital flows in the global economic crisis. Therefore, there is considerable debate about the impact level of global expansion or contraction on domestic economies in the literature. More clearly, there is a consensus in the literature that the effects of positive and negative shocks in these variables are not similar or equal. As stated above, the impacts of negative shocks, especially during the economic crisis, are very severe. Accordingly, nonlinear ARDL (NARDL) is preferred as the analysis method. NARDL is a nonlinear prediction method and separately model the impact of positive and negative shocks in the independent variable on the dependent variable. It is thought that the use of nonlinear estimation method will give more reliable results and will enhance originality to the study.

The rest of the study is organized as follows. In the next section, definitions, theoretical background, the empirical literature, on globalization and economic growth and the relationship between two variables are engaged. Data, methodology, and empirical results are in Sections 3 and 4, respectively. Finally, the conclusion is in the last section.

BACKGROUND

Economic developments in the 1970s played an important role in this progress of globalization. The stagflation in advanced economies is the most important of these developments. On the other side, it has been experienced that import-substitution industrialization[1] does not succeed in many developing countries. Therefore, there was a need for new economic policies in terms of both advanced and emerging economies. This requirement caused neo-liberal economic thoughts to gain popularity. The suggestions expressed in the framework of neo-liberal economic thought have provided a basis for the acceleration of economic globalization.

The first group of these suggestions relates to international good and factor mobility. Accordingly, the production should be done within the framework of the comparative advantages of countries. In this way, the countries will have used their resources effectively. Thus, while every country export goods and services that it is produced effectively, it will import goods and services that it is not effective (Karluk, 1974). Zahonogo (2018) summarize the channels through which the liberalization of cross-country goods and factor mobility will have positive effects on economic growth. Firstly, it is stated that increasing competition, specialization, the economy of scale, and deployment of resources will have positive effects on economic growth. Secondly, it is expressed that commercial openness will provide technology diffusion and innovations[2]. Lastly, it is mentioned that the countries will determine more effective and rational policies in order to have an advantage in international competition (Zahonogo, 2018: 191-192). As a result, many countries have implemented policies to liberalize international trade, and many emerging countries have adopted an export-oriented growth strategy.

The second group of the suggestions of the neo-liberal economic thought relates to international capital movements. While some countries have high savings levels, the others have low savings rates. Similarly, while some countries have a balance of payments surplus, the others have a balance of payments deficit. In sum, there is a serious imbalance in global capital distribution. Liberalization of international capital movements will offer capital owners the opportunity to invest in instruments that will yield higher returns, while lower-cost funds will be provided in countries with high funding costs. In addition, liberalization of foreign capital movements will enable the development of emerging countries, which cannot come out of "the vicious cycle of poverty" due to low income, low savings, and low investments (Nurkse, 1953). Prasad et al. (2003) summarized the direct transmission channels where the positive influence of international financial integration on domestic economic growth. Firstly, it is stated that there will be increases in domestic savings and decreases in interest rates. Secondly, it is informed that the risk in investments will be shared with foreign partners, and risk diversification will be made. Thirdly, it is said that FDI offers opportunities to transfer advantages such as technology, management skills, and experience. Finally, domestic banks, go into foreign partnerships, enable the development of new financial instruments and techniques. As a result, the international commercial and financial system has been liberalized and international economic integration has increased. In other words, globalization has advanced the commercial and financial ties existing in the international economic system to a higher level. Therefore, the interaction between business cycles across countries has increased and the countries have established a higher relationship with the global economic system.

Economic growth is the most important requirement for the country to increase its welfare. Therefore, many studies put forward to many different views on the factors affecting the increase of GDP since the emergence of economics. The classical economic growth theories explain the economic growth with different variables. Harrod (1939) and Domar (1947) attribute importance to investments. Neo-classical

growth theories such as Solow (1956) and Koopmans (1965) feature the importance of capital accumulation (health, education, knowledge, etc.) in the short term and technology in the long term. Lastly, Romer (1994) explains economic growth through R&D, human capital, and public policies. On the other hand, many studies highlight the role of external factors with the increasing effect of globalization. The external factors whose effects on economic growth are investigated are as follows: FDI (Mansfield & Romeo, 1980; Aitekn & Harrison, 1999; Güvenoğlu & Aydın (2019); trade or financial openness (Sachs & Warner, 1995; Barro, 1999); export (Kavoussi, 1984; Greenaway et al., 1999); import (Dollar, 1992; Zhang & Zou, 1995); international remittances (Erik & Ruiz-Arranz, 2006; Barajas et. al., 2009) and financial integration (Kraay, 1998; Klein & Olivei, 2008). The papers such as Kim (2001); Köse et al. (2003); Mackowiak (2007); Mumtaz & Surico (2009); Arora & Vamvakidis (2010) focus directly on the spillovers of global demand or supply shock, and global liquidity shock on domestic economic growth.

This paper investigates the impact of global demand or supply shock, and global liquidity shock on Turkish economic growth. There have been no systematic studies examining, foreign impact on growth in the Turkish economy using variables such as global growth, global import, and global liquidity, as far as we know. However, many studies are investigating the impact of global or foreign shocks on domestic economic growth in international literature. In these studies, the variables whose impact is investigated are determined as direct global shocks or, shocks related to countries that are important in the global economy. In studies examining global liquidity shocks, many references are made to the United States (US) monetary policy shocks. The reason for this is explained by the relative importance of the US on global financial markets.

Utlaut & van Roye (2010) investigate the impact of global shocks on East Asian countries in the period 1993-2003. Accordingly, the world GDP growth, global financial conditions, and China's GDP growth have explanatory power on the domestic GDP growth of these countries. Osterholm & Zettelmeyer (2008) examine the impact on Latin American countries in 1994-2007. Analysis results show that world GDP growth has a positive effect on Latin American GDP growth. In addition, while Latin American growth resists moderate declines in global growth, it is found to be more sensitive to more sharp shocks. Vasishtha & Maier (2013) explore the impact of global shocks on the Canadian economy in the period 1985-2008. According to the results of the analysis, the Canadian GDP is exposed to shocks related to global economic activities. In contrast, the impact of global interest shocks is significantly less. Apart from these studies, there are studies investigating the impact of shocks in its economic partner or with a country that is important in the global economy on any small open economy. O'Grady et al. (2017), with global economic shocks, take into account macroeconomic shocks in countries such as England and the Eurozone, which are influential on the Irish economy, and the US and China, which are influential in the global economy. The analysis of the study includes the period of 1980-2016. Firstly, it is concluded that the increase in US policy rates reduces output in the United Kingdom (UK), the Euro Area, and Ireland. Secondly, it is stated that the contraction in the global economy, China, and the UK economy decrease Irish economic growth. Allegreti et al. (2012) examine the effects of US GDP and US monetary policy shocks on East Asian countries in the period of 1990-2012. It is reported that the impact of US GDP on real domestic activity is more important than US monetary policy shocks. Yamamoto (2014) investigate the impact of US financial and real shocks on Asian countries in the period 2000-2012. Accordingly, financial and real shocks explain about 50% of the production fluctuation in Asian economies. However, the impact of financial shocks was greater than real shocks during the 2008 financial crisis. Feldkircher & Huber (2016) analyse the effects of US demand, supply, and monetary policy shocks on 43 countries in the period of 1995-2013. The results of the analysis show that positive demand and supply

shocks cause an increase in real output and the contractionary monetary policy shock decrease production. However, the effect is faster in developed economies and slower in European and Latin American countries. Erten (2012) examines the effects of economic activities in the US and the Euro Area on Asia, Latin America, and China in 1993-2011. According to the results, economic growth in the US and the Euro Area promotes economic growth in all three regions. However, there is a lower response to the contraction in the US financial conditions. Arora & Vamvakidis (2006) estimate the effects of US shocks on the full sample of advanced and developing countries in the period 1980-1996. Estimation results indicate that US economic growth has significant positive impacts on economic growth in the rest of the world, especially in developing countries. Bayoumi & Swiston (2009) explore the impact of the US, Euro Area, and Japan output on the output of other industrialized economies in 1970-2006. While US output has a significant influence on the output of other economies, the impact of the Euro Area and Japan is limited. Mumtaz & Surico (2009) investigate the impact of the economic variables of 17 countries on the UK economy in the period of 1974-2005. It is concluded that the foreign interest rate affects UK GDP growth.

Poirson & Weber (2011) analyse the impact of other countries' economic activities in the recovery period of economies that experienced a serious contraction in the European economy after the 2008 financial crisis. In other words, the effect of growth shocks from faster-growing countries on slower-growing countries is investigated. The results of the analysis show that the effect of the US and Japan economic growth was positive and important. In the European economy, French economic growth had a significant influence. While the growth of Spain had positive effects before the financial crisis, these effects disappeared after the crisis. However, the negative effects of the economic contraction in European countries experiencing an economic crisis were limited. Arora & Vamvakidis (2010) report that China's 1% economic growth has a 0.4% positive impact on the rest of the world for three years. Kinfeck & Bonga-Bonga (2020) investigate the effect of economic output in regions where Africa's commercial relations are intense on the African output level. There are two subperiod, 1980-2006 and 1997-2015. Accordingly, US output has no effect in either period. Euro area output has a positive effect on African output in the period 1980-2006. In the second subperiod, a 1% increase in China output growth increases African output 0.05%. Belhedi et al. (2015) examine the impact of various countries and variables in the global economy on the Tunisian economy in 1990-2011. Accordingly, the decrease in the demand in its trade partners decreases sharply the Tunisian output. However, the sensitivity of economic growth to foreign interest rates is low. Rahman (2015) explores the effect of OECD output on the Bangladesh economy between the periods of 1989-2013. OECD output growth positively affects economic growth in the Bangladesh economy. Goswami & Alamgir (2018) investigate the effect of economic growth in its 11 major trading partners on the Bangladesh economy in the period of 1972-2015. It is concluded that only the economic growth of the US, India, and Japan influence Bangladesh economic growth. However, the Euro Area and China do not have any effect.

Many empirical studies in the literature investigate only the effects of liquidity shocks on domestic economic growth. Most of these studies take into account the US liquidity shocks due to its importance in the global financial system. Kim (2001) concludes that US interest rates affect output in the other six G-7 countries. Mackowiak (2007) investigate the effect of US monetary policy shock on the output level of developing countries. The analysis results show that the output in these countries strongly responds to US monetary policy shock. The more impressive result is the effect in these countries is even greater than the effect in the US economy. The quantitative easing (QE) programs, implemented during the 2008 financial crisis, have increased the attention in the international transmission of monetary policy

in developed countries, especially the US. Giovanni & Shambaugh (2008) analyse the effect of foreign interest rates on economic activity in 120 countries in 1973-2002. Analysis results indicate that high foreign interest rates have contractionary effects on domestic output. However, this effect appears to be greater in countries with fixed exchange rates. Jannsen & Klein (2011) estimate the international impacts of European Central Bank monetary policy shocks into other western European countries, namely the United Kingdom, Norway, Switzerland, Denmark, and Sweden between 1980-2009 periods. The estimation results show that these monetary policy shocks have substantially the same influence as the effect on the output of countries in the Euro area. The impact on these countries is more prominent in the 1999-2009 sub-period. Akıncı (2013) explores the macroeconomic effects of global risk and global financial conditions on developing countries such as Argentina, Brazil, Mexico, Peru, South Africa, and Turkey. Accordingly, the contribution of global risk-free interest rate shocks to macroeconomic fluctuations in emerging economies is negligible. Its role is taken up by global financial risk shocks. Fukuda et al. (2013) investigate the effect of the US monetary tightening on Asian and Latin American countries. According to results, the US monetary policy shock has negative influences on the production of these countries. However, it is concluded that these negative effects have decreased since the 2000s. Georgiadis (2016) examines the impact of US monetary policy shocks on 61 advanced and emerging economies in 1999-2009. The spillover effect differs between countries. The impact of US monetary policy on economic growth in countries that apart from Australia, Africa, and Latin America is as great as the domestic effect in the US. The effect in Russia, the Baltic countries, Greece, Ireland, and Luxembourg is greater than the other countries. On the contrary, the effect in China and Southeast Asian countries is weak. In addition, the spillover effect is high in countries with a flexible exchange rate regime. Iacoviello and Navarro (2018) analyse the effects of high US interest rates on 50 developed and developing countries in 1965-2016. According to the results, the economic activity in foreign countries responds to the US monetary policy contraction as much as the US economy. The impact in developing countries is greater than in the others. Finally, it is presented the studies investigating the impact of the Federal Reserve Bank's QE policies on other countries. The policy of quantitative easing such as large-scale asset purchases created extraordinary excess liquidity in the US and global financial markets. Chen et al. (2015) investigate the impact of QE on US corporate spreads and the effect of US corporate spreads' on other countries' financial and macroeconomic variables (economic growth, prices). The impact of QE in many developing economies is more than the US economy. In addition, the effect of QE differs significantly in developing countries. Bhattarai et al. (2015) analyse the impact of QE on the financial and real variables of emerging economies. According to results, while the effect of QE on the financial variables is important, there is no influence on output and inflation.

MODELS, DATA AND METHODOLOGY

The Relation Between the Global Variables and Domestic Economic Growth

Three models are estimated in the empirical analysis. In the first model, the impact of global economic growth on Turkish economic growth is investigated. There are various transmission channels that Turkish output is associated with the global economic output. The most important of them is the foreign trade channel. Accordingly, the growth of global and domestic output increases the volume of foreign trade. The increase in exports refers to the rise in external demand for the Turkish economy. On the

other hand, the impact of the increase in imports is two-way. Firstly, imports of intermediate, capital, and investment goods encourage economic growth through channels such as the use of idle resources, productivity growth, technology, and innovation transfer. Secondly, imports of consumer goods cause a negative impact on economic growth, especially in the long run, because of reasons such as savings deficit and external deficit. The second channel in which global economic growth has an impact on Turkish economic growth is FDI. As global economic growth will raise the profits of multinational companies, it increases FDI to developing countries. However, the unstable and low economic growth in developed countries can cause multinational companies to shift their production to developing countries where there is a relatively stable economic situation. Therefore, it is expected to the impact of global economic growth on Turkish economic growth may be positive or negative. In the second model, the impact of global import demand on Turkish economic growth is investigated. The theoretical framework related to this variable is explained in the first model. In this context, the rise in global import demand increases the volume of Turkish exports. Therefore, it is expected to the impact of global import demand on Turkish economic growth may be positive. In the third model, the impact of global liquidity on Turkish economic growth is explored. The expansion in the global liquidity volume increases foreign capital inflows towards developing countries, where there are relatively higher-yielding investment opportunities. If foreign capital inflows are in the form of FDI, it has positive effects on economic growth. However, foreign capital inflows are mostly in financial form. Accordingly, there are two views on the impact of financial capital inflows on economic growth. The neoclassic view argues that financial capital inflows will increase financial depth. Thus, developing countries with savings deficits will have more resources to invest (Karahan & Gencür, 2019). According to the other view, it is argued that financial capital inflows may cause financial fragility in that country in the long term. Therefore, sharp foreign capital outflows lead to financial crises in the end (Karahan & Çolak, 2011). Accordingly, the impact of global liquidity on Turkish economic growth can be positive or negative.

All three models include investments and inflation variables as control variables. While many growth theories such as Harrod (1939); Domar (1947) and Rostow (1960), attach great importance to investment, many studies, such as Barro (1991); Levine and Renelt (1992), concluded that investment is an important determinant of economic growth. Secondly, many studies such as Fischer (1983) and Bruno and Easterly (1995) have revealed that inflation is an important determinant of economic growth. In the econometric model, other many control variables could be determined, but it was preferred adding only two variables in order not to deviate from the purpose of the study. The impact of the investments, which is the first control variable, on economic growth is expected to be positive. There are many opinions regarding the impact of inflation on economic growth. First, it is argued that inflation will affect economic growth positively. These views are based on the fact that the conditions that inflation, in general, will increase savings and investments. The second view argues that inflation will affect economic growth negatively. Accordingly, economic growth declines, as inflation increases economic risk and uncertainty (Berber & Artan, 2004). In this context, the effect of inflation on economic growth can be positive or negative.

Data and Methodology

Table 1 presents the descriptions of the variables. The dependent variable is Turkish economic growth. The proxy of this variable is the gross domestic product of Turkey (constant 2010 US $). In models 1 and 2, the first independent variables are global economic growth and global import demand. As proxies of these variables, world gross domestic product (constant 2010 US $) and total world import (constant

2010 US $) are used. In the third model, the independent variable is the world interest rate, which is used as an indicator of global liquidity. The US has an important role in global financial markets. Therefore, the US 10-year government interest rate is used as a proxy of the global interest rate. The models include also the investment and inflation rate as the control variables. The indicator of investment and inflation are Turkish gross capital formation (constant 2010 US $) and consumer prices (annual %), respectively. All variables are expressed in natural logarithm form. While dgdp, wgdp, wimp, inv, and inf data are obtained from the Worldbank database, wir data is obtained from the Federal Reserve Bank of St. Louis Economic Data Centre. The analysis period includes in 1987-2018. The econometric analysis is performed with the yearly data.

Table 1. Variable definitions

Variables	Definitions	Source
Turkish Economic Growth (dgdp)	Gross Domestic Product of Turkey (constant 2010 US$)	Worldbank
Global Economic Growth (wgdp)	World Gross Domestic Product (constant 2010 US$)	Worldbank
Global Import Demand (wimp)	Total World Import (constant 2010 US$)	Worldbank
Global Liquidity (wir)	US 10 Year Treasury Rate (%)	St. Louis FED
Turkish Investments (inv)	Turkish Gross Capital Formation (constant 2010 US$)	Worldbank
Turkish Inflation (inf)	Consumer Prices (annual %)	Worldbank

The method of the study is NARDL. The NARDL based on the ARDL method developed by Pesaran et al. (2001). This method allows estimating the cointegration relationship between variables, and then long and short-term relationships. The advantages of this method make it more useful compared to other cointegration tests. The advantages of the method make it more useful compared to other cointegration tests. Firstly, all series in the analysis must be I (1) in other cointegration tests. The ARDL approach can be performed with series with I (0) or I (1). Secondly, the ARDL method provides efficient and consistent estimations even if small and limited samples are used (Pesaran et al. 2001). The NARDL method developed by Shin et al. (2014) also takes into account the nonlinearity between variables. Accordingly, the effect of positive and negative shocks in the independent variable on the dependent variable is modelled separately in this approach (Shin et al. 2014).

Equations (1), (2), and (3) show nonlinear models for NARDL estimation. In equation (1), the asymmetric effects of wgdp on dgdp are investigated. In equation (1), dgdp is the dependent variable; inv and inf are control variables; $wgdp^+$ and $wgdp^-$ are positive and negative shocks of wgdp. In equation 2, the asymmetric effects of wimp on dgdp are estimated. In equation (2), dgdp is the dependent variable; inv and inf are control variables; $wimp^+$ and $wimp^-$ are positive and negative shocks of wimp. In equation 3, the asymmetric effects of wir on dgdp are investigated. In equation (3), dgdp is the dependent variable; inv and inf are control variables; wir^+ and wir^- are positive and negative shocks of wir. In all three equations, $\beta_1 = -\frac{\theta^+}{\rho}$ and $\beta_2 = -\frac{\theta^-}{\rho}$ are asymmetric long-run parameters. $\sum_{i=0}^{q}\pi_i^+$ and $\sum_{i=0}^{q}\pi_i^-$ measure the short-run effect of positive and negative shocks.

$$\Delta dgdp_t = \alpha_0 + pdgdp_{t-1} + \theta^{+} wgdp^{+}_{t-1} + \theta^{-} wgdp^{-}_{t-1} + \varphi inv_{t-1} + \vartheta \inf_{t-1} + \sum_{i=1}^{p-1} \mu \Delta dgdp_{t-i} + \sum_{i=0}^{q} (\pi_i^{+} \Delta wgdp^{+}_{t-i} + \pi_i^{-} \Delta wgdp^{-}_{t-i}) + \sum_{i=0}^{r} \eta \Delta inv_{t-i} + \sum_{i=0}^{s} \sigma \Delta \inf_{t-i} + \varepsilon_t \quad (1)$$

$$\Delta dgdp_t = \alpha_0 + pdgdp_{t-1} + \theta^{+} wimp^{+}_{t-1} + \theta^{-} wimp^{-}_{t-1} + \varphi inv_{t-1} + \vartheta \inf_{t-1} + \sum_{i=1}^{p-1} \mu \Delta dgdp_{t-i} + \sum_{i=0}^{q} (\pi_i^{+} \Delta wimp^{+}_{t-i} + \pi_i^{-} \Delta wimp^{-}_{t-i}) + \sum_{i=0}^{r} \eta \Delta inv_{t-i} + \sum_{i=0}^{s} \sigma \Delta \inf_{t-i} + \varepsilon_t \quad (2)$$

$$\Delta dgdp_t = \alpha_0 + pdgdp_{t-1} + \theta^{+} wir^{+}_{t-1} + \theta^{-} wir^{-}_{t-1} + \varphi inv_{t-1} + \vartheta \inf_{t-1} + \sum_{i=1}^{p-1} \mu \Delta dgdp_{t-i} + \sum_{i=0}^{q} (\pi_i^{+} \Delta wir^{+}_{t-i} + \pi_i^{-} \Delta wir^{-}_{t-i}) + \sum_{i=0}^{r} \eta \Delta inv_{t-i} + \sum_{i=0}^{s} \sigma \Delta \inf_{t-i} + \varepsilon_t \quad (3)$$

Before performing the NARDL method, the stationary of the variables is tested. Then, it is estimated the nonlinear models by using the OLS method with the optimum lag lengths that determined based on the Akaike Information Criteria. In fourth place, it is investigated the cointegration relationship between the variables. The bound test suggested by Pesaran et al. (2001) is used for this purpose. The bound test checks the $\rho=\theta+=^{\theta}-=\varphi^{=}\vartheta=0$ hypothesis. If the null hypothesis is rejected, it is decided that there is a cointegration relationship between the variables. Subsequently, it is performed an asymmetry test. Accordingly, the long term ($\beta 1=\beta 2$) $_{a}$nd $_{s}$hort term ($\pi_i^{+} = \pi_i^{-}$) asymmetries are tested. The Wald statistics are used in the hypothesis test. If the null hypothesis is rejected, it shows that there is an asymmetrical relationship. After the asymmetrical relationship is detected, short and long term coefficients are estimated.

EMPIRICAL RESULTS

Table 2 shows the results of ADF unit root test. The integration levels of the series can be seen in the table. Accordingly, all series are stationary in the first difference. This result means that NARDL analysis will be performed using these series.

Table 3 shows the NARDL estimation results. In addition, it is presented the estimation of error correction regression in Appendix 1. When performing the NARDL estimation, the optimum lag length was determined based on the Akaike Information Criteria. Table 3-Panel A indicates the determined optimum lag lengths. They are located in the parenthesis in the first line. Secondly, Table 3-Panel B shows the results of diagnostic statistics. R2 ^{a}nd Adjusted R2 ^{a}re 0.99 in three models. In addition, serial correlation, heteroscedasticity, normality, and the specification of functional form were tested3. According to test results, there is no serial correlation and heteroscedasticity problem. The residuals are normally distributed and the three models are correctly specified. Finally, the stability of models is explored with the cumulative sum (CUSUM) and the square of the cumulative sum (CUSUM2) of recursive residuals tests. CUSUM and CUSUM2 ^{t}ests indicate that the models are stable.

Table 3 also shows the long-term coefficients, bound test, and asymmetry test results. Firstly, the results of model 1 that investigated the effect of global economic growth on Turkish economic growth, is interpreted. According to bound test results, F statistical value ($FP_{SS)}$ is 7.521. FP_{SS} is greater than the critical upper bound (4.37) tabulated by Pesaran et al. (2001) at 1% significance level. Accordingly, there

Table 2. The result of ADF test

Variables	(level)		(first difference)	
	intercept	**intercept-trend**	**intercept**	**intercept-trend**
dgdp	0.6108	-2.2582	-5.8563[a]	-4.1936[b]
$wgdp^+$	-0.3150	-2.0162	-4.4124[a]	-4.3416[a]
$wgdp^-$	-0.6331	-1.9627	-5.4772[a]	-5.4580[a]
$wimp^+$	-1.2266	-1.1820	-4.5531[a]	-4.0289[b]
$wimp^-$	-0.6331	-1.9627	-5.4772[a]	-5.4580[a]
wir^+	2.5022	1.2288	-3.9537[a]	-4.0137[b]
wir^-	1.0282	-2.3785	-5.3711[a]	-5.5637[a]
inv	-0.6326	-3.9209[b]	-4.1709[a]	-4.1612[b]
inf	-1.0055	-2.0435	-6.5964[a]	-6.4521[b]

Note: Optimum lag length is determined based on the Akaike Information Criterion. a, b, c denote significance 1%, 5%, 10% levels, respectively.

is a cointegration relationship for model 1. In the Wald test, performed to investigate the asymmetric relationship in the short and long term, the Wald statistical value is 11.073 for the long term ($WL_{R)}$ and 8.247 for the short term ($WS_{R)}$. These values are greater than the critical value at 1% significance level. Therefore, it is concluded that there is an asymmetrical relationship in the short and long term. Long-term coefficients of global economic growth $\left(L_{wgdp^+}, L_{wgdp^-}\right)$ are 0.56 and -9.54. These coefficients mean that both growth and shrinkage in global economic output increase the Turkish economic growth. Specifically, a 1% growth in the global economic output increases Turkish economic growth by 0.56%. On the other hand, a 1% contraction in the global economic output increases the Turkish economic growth by 9.54%. The long-term coefficients of investment (L_{inv}) and inflation (L_{inf}) are 0.47 and 0.04, in model 1. These coefficients indicate that investment and inflation encourage economic growth. However, the positive effect of investment is more powerful.

Secondly, the estimation results of model 2 are mentioned. This model analyses that the impact of global import demand on Turkish economic growth. In the bound test, the statistical value (F_{PSS}) is 15.007, and (F_{PSS}) is greater than the critical upper bound. Thus, it is decided that there is a cointegration relationship between the variables. In the Wald test, the statistical value is calculated 9.444 for the long term (W_{LR}) and 50.472 for the short term (W_{SR}). According to the results of the Wald test, it is concluded that there is an asymmetrical relationship in the short and long term at a 1% significance level. Long-term coefficients of global import demand $\left(L_{wimp^+}, L_{wimp^-}\right)$ are 0.27 and -1.29. The impact on the global import demand on Turkish economic growth is the same the global economic growth, in terms of the direction of influence. Accordingly, a 1% increase in the global import demand raises Turkish economic growth by 0.27%. On the other hand, if global import demand experienced a 1% contraction, Turkish economic growth increases by 1.29%. The coefficients of the investment (L_{inv}) and inflation (L_{inf}) are 0.51 and 0.04. These coefficients show that investment and inflation enhance economic growth, as in model 1.

Thirdly, it is mentioned about the model 3. As stated above, the model 3 is used to estimate the impact of global liquidity on Turkish economic growth. Bound test results show that F statistical value (F_{PSS}) is

6.114. (F_{PSS}) is greater than the critical upper bound. Thus, it is decided that there is a cointegration relationship between variables. In the Wald test, the statistical value is calculated 4.589 for the long term and 38.401 for the short term. According to the result of the Wald test, there is an asymmetrical relationship in the short and long term at 1% significance level. Long-term coefficients of global liquidity $\left(L_{wir^+}, L_{wir^-}\right)$ are -0.09 and -0.28. As stated above, the US long-term interest rate is used as a proxy for global liquidity. According to the results, positive shocks in US long-term interest rates affect Turkish economic growth negatively. Although this effect is economically significant, it is statistically insignificant. On the other hand, a 1% decrease in US long-term interest rates raises Turkish economic growth by 0.28%. The coefficients of the investment (L_{inv}) and inflation (L_{inf}) are 0.42 and 0.004. Accordingly, investments have a positive effect on economic growth. However, the coefficient of inflation is statistically insignificant.

Finally, according to Table 4, the error correction terms (ect_{t-1}) are -0.81, -0.70 and -0.60, respectively. They are also statistically significant. Therefore, it can be stated that the error correction mechanism is working in all three models.

There are no studies analysing the effect of global variables on domestic growth, using the nonlinear method, as far as we know. Therefore, one to one comparison could not be made with the empirical literature. Accordingly, the first main result of the study is that the global GDP or global import demand affect Turkish economic growth. Studies such as Osterholm & Zettelmeyer (2008), Arora & Vamvakidis (2006), Rahman (2015) have reached the same empirical results. Secondly, the empirical results obtained by studies such as Utlaut & van Roye (2010), O'Grady et al. (2017), Mumtaz & Surico (2009) that the global financial situation affects the domestic GDP is consistent with this studies results. Thirdly, one of the interesting empirical results of this study is that the impact of the global real shock on Turkish economic growth is greater than the impact of the global finance shock. In the empirical literature, studies such as Vasishtha & Maier (2013), Allegreti et al. (2012), Erten (2012), Belhedi et al. (2015) have made a similar comparative analysis. and they reached the same result with this study. As a result, it can be stated that the empirical findings obtained in this study are generally consistent with the literature.

CONCLUSION

The relationship between the countries has increased significantly since the late 20th century. This is a result of globalization. Accordingly, developments at the global level have a fast and strong impact on countries. The phenomenon of globalization encompasses, basically, very large areas. In this framework, economic, socio-cultural, and political aspects of globalization are emphasized, in the description of globalization. Although it is stated in the literature that globalization is effective in many fields, it is seen that the influence in the economic field is more prominent. In this framework, economic globalization has significantly increased economic relations between countries. Therefore, the impact of external economic factors on domestic economic variables has increased. This study focuses on increasing international economic dependency. Therefore, it explores the effects of the global economic situation and global liquidity on domestic economic growth. In this context, the purpose of the paper empirically investigates the effects of the global economic situation and global liquidity on Turkish economic growth.

Three empirical models are used in the study. The dependent variable is Turkish economic growth in all models. In the two models, global economic growth and global import demand are independent

Table 3. Estimation of the nonlinear ARDL model

Model 1 (4,4,4,4,4)			**Model 2 (4,3,4,4,3)**			**Model 3 (4,1,3,3,0)**		
Var.	**Coeff.**	**t-stat**	**Var.**	**Coeff.**	**t-stat**	**Var.**	**Coeff.**	**t-stat**
Panel A: Long-Run Coefficients								
L_{wgdp^+}	0.5649	4.0497 [0.027]	L_{wimp^+}	0.2716	4.9299 [0.0044]	L_{wir^+}	-0.0921	-0.7040 [0.4938]
L_{wgdp^-}	-9.5416	-4.3302 [0.0227]	L_{wimp^-}	-1.2980	-6.9373 [0.0010]	L_{wir^-}	-0.2893	-4.6765 [0.0004]
L_{inv}	0.4706	7.2881 [0.0053]	L_{inv}	0.5158	9.5499 [0.0002]	L_{inv}	0.4216	8.1619 [0.0000]
L_{inf}	0.0423	4.1344 [0.0257]	L_{inf}	0.0469	4.7444 [0.0051]	L_{inf}	0.0047	0.4768 [0.6414]
c	14.527	9.2806 [0.0026]	c	13.432	10.1877 [0.0002]	c	15.916	12.404 [0.0000]
Panel B: Diagnostic Statistics								
F_{PSS}	7.521***		F_{PSS}	15.007***		F_{PSS}	6.114***	
W_{LR}	11.073***		W_{LR}	9.044**		W_{LR}	4.589***	
W_{SR}	8.247***		W_{SR}	50.472***		W_{SR}	38.401***	
R^2	0.99		R^2	0.99		R^2	0.99	
Adj. R^2	0.99		Adj. R^2	0.99		Adj. R^2	0.99	
χ^2_{SC}	40.455 [0.110]		χ^2_{SC}	2.088 [0.270]		χ^2_{SC}	0.332 [0.724]	
χ^2_{FF}	3.030 [0.223]		χ^2_{FF}	0.505 [0.516]		χ^2_{FF}	2.378 [0.148]	
χ^2_{HET}	0.362 [0.935]		χ^2_{HET}	0.723 [0.730]		χ^2_{HET}	1.018 [0.491]	
χ^2_{NOR}	7.267 [0.026]		χ^2_{NOR}	0.7389 [0.691]		χ^2_{NOR}	0.365 [0.833]	
CUSUM	Stable		CUSUM	Stable		CUSUM	Stable	
$CUSUM^2$	Stable		$CUSUM^2$	Stable		$CUSUM^2$	Stable	

Note: *** and ** show that statistical significance 1% and 5% levels. W_{LR} refers to the Wald test of long-run symmetry (i.e. $L_{wgdp^+} = L_{wgdp^-}$) while W_{SR} denotes the Wald test of short-run symmetry condition. F_{PSS} is statistical value for the bound test. According to Pesaran et. al. (2001), the critical upper bound value is 4.37 at 1% significance level.

variables. These models investigate the effect of the global economic situation on Turkish economic growth. The third model examines the effect of global liquidity on economic growth. The third model's independent variable is the world interest rate, and the US long-term interest rate is considered as a proxy of it. In all three models, control variables are investments and inflation. The paper's empirical method is NARDL. The analysis period of the study covers the 1987-2019 periods when globalization and liberalization policies intensified. According to estimation results, there are cointegration relationships between the variables in all three models. When it is examined the long-term coefficients, it can be stated the following results. Firstly, the increase in global import demand and global economic growth has positive effects on Turkish economic growth. On the other hand, the decrease in global import demand and global economic growth also increases Turkish economic growth. Moreover, the positive effect of

negativeness in the global economic situation is stronger. Secondly, while the rise of US long-term interest rates does not affect Turkish economic growth, the decrease in has US long-term interest rates positive effects on Turkish economic growth. Thirdly, investments, added to the model as a control variable, affect economic growth positively. However, inflation has negligible positive influences on economic growth.

Consequently, growth in global output and global import demand positively affects the Turkish economic growth. However, the contraction in global output and global import demand have stronger positive effects on Turkish economic growth. The reason for this is interpreted as follows. Firstly, the contraction of developed economies or to be in an economic crisis cause multinational companies to shift their production to developing economies. Therefore, developing countries grow faster and bigger in the long-term. Secondly, developing countries implement strong expansionary economic policies, in times of economic crisis in developed economies. Thus, they aim to minimize the impact of the global economic crisis on their domestic economy. The 2008 financial crisis experience has shown that, although developed countries are in severe economic crisis, developing countries have achieved high growth rates thanks to expansionary policies. Finally, it can be stated that the expansion in global liquidity has positive effects on Turkish economic growth. In addition, one of the interesting results of the study is as follows, the impact of the global real shock on Turkish economic growth is greater than financial shocks.

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KEY TERMS AND DEFINITIONS

Economic Growth: Economic growth is the increase of a country's gross domestic product compared to the previous period.

Global Liquidity: Liquidity is how easily and quickly assets can be converted into cash. Global liquidity, on the other hand, refers to the magnitude of this opportunity in global financial markets.

Globalization: Globalization is a process of interaction and integration among the people, companies, and governments of different nations.

Inflation: Inflation is the increase in the price level.

Investments: Investments refers to the real investment in land, buildings, facilities, and machinery made by an industrial unit.

Nonlinear Analysis: This analysis considers the effect of both positive and negative shocks in the independent variable on the dependent variable.

World Import Demand: It refers to the total import of all countries in the world.

ENDNOTES

1 Many developing countries implemented this strategy in the 1960-70s. It is based on mercantilist theories that oppose international trade and capital flow. It advocates the protection of the national industry through protective policies (Günsoy, 2006: 163-202).

2 Zahanogo (2018), referring to Fagerberg (1994) and Verspagen (1991), associates the impact of technology and innovation transfer on economic growth with the absorptive capacity of a country. The country's absorptive capacity is determined by factors such as human capital, corporate quality.

3 It was preferred the Breusch Godfrey Serial Correlation LM test for serial correlation, the Breusch-Pagan-Godfrey test for heteroscedasticity, the Jarque-Bera normality test for normality, and the Ramsey-Reset test for the verification of the functional form.

APPENDIX

Table 4. The estimation of error correction regression

Error Correction Regression								
Model 1			**Model 2**			**Model 2**		
Var.	**Coeff.**	**t-stat**	**Var.**	**Coeff.**	**t-stat**	**Var.**	**Coeff.**	**t-stat**
$\Delta dgdp_{t-1}$	-0.150	-1.650 [0.1974]	$\Delta dgdp_{t-1}$	-0.3238	-3.5366 [0.0166]	$\Delta dgdp_{t-1}$	0.3244	2.3402 [0.0359]
$\Delta dgdp_{t-2}$	-0.325	-3.683 [0.0347]	$\Delta dgdp_{t-2}$	-0.6306	-6.0809 [0.0017]	$\Delta dgdp_{t-2}$	0.1534	1.0416 [0.3165]
$\Delta dgdp_{t-3}$	-0.524	-7.941 [0.0042]	$\Delta dgdp_{t-3}$	-0.5376	-9.2667 [0.0002]	$\Delta dgdp_{t-3}$	-0.2253	-3.5169 [0.0038]
$\Delta wgdp^{+}$	0.438	2.893 [0.0628]	$\Delta wimp^{+}$	0.1145	2.8037 [0.0378]	Δwir^{+}	0.0505	1.3869 [0.1888]
$\Delta wgdp^{+}_{t-1}$	0.126	0.602 [0.5891]	$\Delta wimp^{+}_{t-1}$	-0.2035	-3.6648 [0.0145]			
$\Delta wgdp^{+}_{t-2}$	0.029	0.162 [0.8814]	$\Delta wimp^{+}_{t-2}$	0.0560	1.6987 [0.1501]			
$\Delta wgdp^{+}_{t-3}$	0.255	2.035 [0.1346]						
$\Delta wgdp^{-}$	-1.777	-4.892 [0.0163]	$\Delta wimp^{-}$	-0.0782	-1.9388 [0.1102]	Δwir^{-}	-0.0041	-0.1517 [0.8817]
$\Delta wgdp^{-}_{t-1}$	4.934	6.299 [0.0081]	$\Delta wimp^{-}_{t-1}$	0.6152	8.6079 [0.0003]	Δwir^{-}_{t-1}	0.1594	4.8459 [0.0003]
$\Delta wgdp^{-}_{t-2}$	5.317	7.736 [0.0045]	$\Delta wimp^{-}_{t-2}$	0.7331	9.5218 [0.002]	Δwir^{-}_{t-2}	0.0773	2.7221 [0.0174]
$\Delta wgdp^{-}_{t-3}$	3.478	6.123 [0.0088]	$\Delta wimp^{-}_{t-3}$	0.4052	7.1057 [0.0009]			
Δinv	0.308	33.796 [0.0001]	Δinv	0.3324	33.967 [0.0000]	Δinv	0.2574	19.501 [0.0000]
Δinv_{t-1}	0.021	0.848 [0.4585]	Δinv_{t-1}	0.0849	3.6465 [0.0148]	Δinv_{t-1}	-0.1216	-2.7679 [0.0160]
Δinv_{t-2}	0.044	2.063 [0.1311]	Δinv_{t-2}	0.1356	5.3423 [0.0031]	Δinv_{t-2}	-0.1098	-2.5736 [0.0231]
Δinv_{t-3}	0.078	5.483 [0.0119]	Δinv_{t-3}	0.1158	7.0622 [0.0009]			
Δinf	0.013	4.980 [0.0156]	Δinf	0.0183	6.7621 [0.0011]			
Δinf_{t-1}	-0.007	-2.199 [0.1153]	Δinf_{t-1}	0.0042	1.2967 [0.2513]			
Δinf_{t-2}	-0.013	-3.921 [0.0295]	Δinf_{t-2}	-0.0139	-3.8115 [0.0125]			
Δinf_{t-3}	-0.010	-2.645 [0.0773]						
ect_{t-1}	-0.817	-10.970 [0.0016]	ect_{t-1}	-0.7058	-13.419 [0.0000]	ect_{t-1}	-0.6002	-7.1274 [0.0000]

Chapter 20
The Pacific Alliance: An Opportunity of Internationalization for MSMEs

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ABSTRACT

The Pacific Alliance is a regional trade agreement (RTA) between Chile, Colombia, Mexico, and Peru. It is generally expected that the implementation of this RTA will provides benefits to all micro, small, and medium enterprises (MSMEs) in the forms of greater internationalization opportunities. However, there are concerns over the extent to which MSMEs have benefited from this commercial agreement. Thus, this chapter analyzes the internationalization process of 23 MSMEs from Colombia that exported to member countries of the Pacific Alliance. The authors, using case study methodology analyzed the internationalization process of these firms and aimed to identify their unique behavior. Results shows that the process began by the creation of networks, the identification of opportunities abroad, and the definition of the internationalization path for each firm. In general, the firms used the institutional resources available in the Pacific Alliance framework to achieve their internationalization strategies.

INTRODUCTION

Globalization efforts via multilateral channels are demonstrating that reaching a satisfactory agreement may take longer than previously thought. Case in point the failure of the negotiations of the Doha Development Round of the World Trade Organization (Khor, 2008). The diversity of interests, economic size, development stage and other factors, some incidental, has made the multilateral approach to trade

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liberalization particularly hard to reach (Wolfe, 2015). In this sense, Regional Trade Agreements (RTAs) have become a path in which countries have pursued their integration agendas to reach out to neighbors and their markets (Bao & Wang, 2019). Vicard (2011) found that countries that are of significant size, similar and geographically close tend to benefit from joining RTAs.

In addition, RTAs include institutional frameworks such as Export Promotion Agencies and access to Public Procurement schemes that may facilitate the outbound efforts of (MSMEs) Micro, Small and Medium Enterprises (Lederman, Olarreaga, & Payton, 2010; Monteiro, 2016). The roles of institutions and the identification of factors that influence the internationalization of MSMEs has been considered crucial and of relevant research interest (Ahmed & Brennan, 2019; Steinhäuser, Paula, & de Macedo-Soares, 2020)

One of the recently implemented RTAs in Latin America is the Pacific Alliance (PA), and in few years have demonstrated important milestones in terms of trade liberalization and trade volume but additionally, achieving significant institutional coordination. Conceived in 2011 and officially launched in 2014, the Pacific Alliance has as members the following countries: Chile, Colombia, Mexico, and Peru. A relevant aspect of the Pacific Alliance is the importance given in their institutional framework to Micro, Small and Medium Enterprises (Alianza del Pacífico, 2012). According to the World Bank (2020), it is estimated that around 90% of companies in the world are MSMEs and account for nearly 50% of employment. Following this trend, around 95% of the firms in the Pacific Alliance are MSMEs. However, intra-regional trade between the Alliance countries is dominated by large corporations (OECD, 2015). In fact, 1% of companies represent 70% of exports within the PA (OECD, 2015, pp 7).

Given this prevalence of MSMEs as proportion of world firms, recent decades have witnessed tremendous attention to the expansion of MSMEs globally (Chetty & Holm, 2000; Crick & Crick, 2014; Evers & O'Gorman, 2011; Felzensztein, 2016; Johanson & Vahlne, 1977; Karami et al., 2019; Oviatt & McDougall, 2005). However, there is little empirical research on the internationalization process of MSMEs in trade agreements (Dimitratos et al., 2014). Therefore, the increased importance of RTAs in shaping trade changing aspects, in addition to the institutional frameworks to promote the operations of small businesses, it is pertinent and timely to foster research delving into the dynamics of MSMEs from a networking perspective (Hånell & Ghauri, 2016).

This chapter analyzes the internationalization process of 23 Colombian MSMEs that exported to member countries of the Pacific Alliance. The case study methodology allows to analyze the internationalization path of the sample of firms and their unique behavior (Dubois & Gadde, 2002). A qualitative approach with exploratory focus via interviews to employees was conducted then analyzed using QDA Miner. From the selected firms, 76% of respondents were managers, 19% were international trade specialists and the remaining 5% had a role like a procurement specialist.

The results of this analysis show that the internationalization process by the companies in the sample begin by the creation of networks through the participation in international trade fairs and business conferences. These activities lead to the identification of opportunities abroad and the definition of the path toward the internationalization of their operations. Additionally, it was found crucial the role played by the institutional framework available (i.e. Export Promotion Agencies or Local Chamber of Commerce, Fletcher & Harris, 2012).

LITERATURE REVIEW

Established theories in the international business discipline have delved into the internationalization process of firms, however, relative to their size, MSMEs have a diversity of challenges and gaps in knowledge and operational dexterity.

MSME Internationalization Process

Various authors have created models that seek to explain the internationalization process of enterprises, bringing forward roadmaps to the successful insertion into the international market. Amongst these models are The Product Life Cycle Theory (Vernon, 1966), The Transaction Cost Theory (Williamson, 1975), The OLI/eclectic paradigm (Dunning, 1977), The Uppsala model (Johanson & Vahlne, 1977) and more recently, the Born Global model or the International New Ventures (Oviatt & McDougall, 1944).

In the late sixties, Johanson and Vahlne (1977) first explained the internationalization process of enterprises based on the social exchange theory (Cook & Emerson, 1978) and the resource dependence theory (Pfeffer & Salancik, 1978), thereby establishing the very first model that portraits the internationalization as an incremental process from a social relations perspective. This model posits networks are built between enterprises, consumers, and providers to acquire knowledge on the foreign markets and obtain resources missing to achieve internationalization (Johanson & Mattson, 1987). Similarly, internationalization poses a sequential or incremental process (Johanson & Vahlne, 1990). This model was empirically verified by numerous authors (Forsgren, Holm, & Johanson, 2015) and was designated as the Uppsala internationalization model or gradual model (Forsgren, 2016). A number of people have criticized it due to its deterministic approach, the ignorance of the enterprise's strategies and its focus on the knowledge and resources acquisition (Andersen, 1993; Mcdougall et al., 1994; Reid, 1983). In 2009, Johanson and Vahlne redefined their model by broadening the concept of networks to complex relationships having invisible patterns and including in their analysis the specific advantages of the enterprise.

On another note, the onset of the Born Global theory opposes the incremental process proffered on the Uppsala model, giving significance to the role of the networks. This theory stems from various empirical researches, carried out by enterprises from the high technology sector amongst others, depict that the internationalization held does not match the Uppsala model, therefore, it neither justifies their early internationalization. (Bell, 1995; Knight & Cavusgil, 2004; Madsen & Servais, 1997). The studies which have established this theory have mainly built upon SME having in common the characteristic of being international from the beginning or acquiring this value within their earliest years. Moreover, they use the network approach in conjunction with the entrepreneurship as a way to explain this process (Chetty & Blankenburg Holm, 2000; Coviello & Cox, 2006; Sharma & Blomstermo, 2003; Zhou et al., 2007). Globalization, the progress in the Information and Communication Technology (ICT) and the reduction on cost and traveling times (Johnson, 2004; Knight & Cavusgil, 2004; Rialp et al., 2005) stand out amid all the factors which have influenced the early internationalization of the SME.

The growing economic footprint of emerging countries is an issue that has been explored in recent years, particularly from the Latin American region. Thus, hinting the need for further research both exploring theory and empirical developments in this specific knowledge field. (Ciravegna, Lopez, & Kundu, 2016)

Characteristics of an International MSME

One of the most common problems facing the SME on their pursuit of a successful internationalization process is their lack of experience on the international market, their lack of knowledge and the lack of human and financial resources (Knight & Cavusgil, 2004; Liesch et al., 2011). Nonetheless, there are also MSMEs which have successfully overcome these obstacles by the following strategies:

1. The director and/or owner is an entrepreneur (Jones & Coviello, 2005; Mathews & Zander, 2007; Zhou, 2007). Export, just as entrepreneurship, is a process that requires steadfastness and motivation while it takes shape as progress is made (Harms & Schiele, 2012). This is why the director's drive towards entrepreneurship plays a vital role (Cavusgil & Knight, 2015). An example of this lies in the similarity existing between the characteristics of an entrepreneur and those of a prosperous trader (Martin & Javalgi, 2016; Zahra, 2005).
2. The director and/or owner sees the world as their potential market (Knight & Cavusgil, 1996, 2004). Most of MSME directors understand big opportunities exist outside their local market. It has been proved that this vision has a positive effect on internationalizing MSMEs (Madsen & Servais, 1997; Oviatt & McDougal, 1994).
3. Networks are created and managed. Their importance consists of their supplementary value on the enterprises' limitations regarding lack of experience and poor knowledge on the target market and the deficiency of human and financial resources. (Freeman et al., 2010; Knight & Cavusgil, 2004). Equally important, networks remain a source for identifying new opportunities in international markets, for testing ideas and obtaining market data (Liesch et al., 2011). Lastly, networks facilitate bundling customers (Weerawardena et al., 2007). These networks can be set by building new relationships with potential buyers, vendors, and suppliers in the target market (Knight & Liesch, 2016), and through a strategic partnership with enterprises that can support MSMEs (Coviello, 2015; Gil-barragan et al., 2020). Additionally, the use of digital channels such as the Internet and social networks, and active participation in business fairs and roundtables are other strategies. (Gabrielsson & Gabrielsson, 2004; Gabrielsson & Gabrielsson, 2013).
4. The use of information and communication technologies (ICT), especially the Internet (Cavusgil & Knight, 2015). The internationalization costs have been reduced on account of the progressive developments and spreading of these technologies. As a result, it is more likable nowadays that an entrepreneur gathers data that allows them to contact possible clients, vendors, and/or suppliers (Knight & Cavusgil, 2004).
5. The existence of a differentiated product (Coviello & Munro, 1997; Kunday & Şengüler, 2015; Weerawardena et al., 2007). These same characteristics are usually shared by the MSMEs inasmuch as, from their perspective, they give a different value from that of the big companies to survive (Cavusgil & Knight, 2015).
6. They focus on market niches. Since they lack resources, international MSMEs sharpen their focus on creating value for specific market niches (Coviello & Munro, 1997; Mort et al., 2012).
7. A large number of MSMEs begin their export process through indirect export (OECD, 2012). This consists of selling products to a local enterprise so it can export it. Through this machinery, MSMEs start to acquire knowledge on the international market and the export process. Notwithstanding, it becomes necessary for the enterprise to do knowledge management to better capitalize on it.

One of the reasons the Born Global theory has a profound connection with the field of the International Undertaking is because of the evenness echoed on both, the characteristics of an entrepreneur and those needed for an enterprise to achieve internationalization. In other words, the founding directors and/or owners of small and medium enterprises have then the qualities needed to internationalize them.

THE PACIFIC ALLIANCE

By law, on 6 June 2012, the presidents of Chile, Colombia, Peru, and Mexico issued the framework agreement of The Pacific Alliance. In this accordance, the goals of the Pacific Alliance are set up. The structure, guidelines on rapport with thirds countries, and other agreements, and the parameters of the dispute settlement regime are also laid down. This alliance came into effect on 20 July 2015.

In the framework of this partnership Alliance, the negotiations of the 19 chapters[1] making up the Supplementary Agreement to the Pacific Alliance Framework Agreement. The discussion was based upon the underpinnings of the Alliance and the homogenization of the existing trade agreements between member countries[2]. The negotiations on market access prioritized those products barred from existing bilateral treaties, accounting for 8% of the total of products[3]. The remaining 92% was already tariff-free. Based on the rules of origin, it was discussed the possibility of cumulate origin and unify these norms, and it was coined the mechanism to fight scarcity[4]. In government procurement, it was agreed to work on improving and promoting MSME access to them attaining greater transparency on this process[5].

Concerning sanitary and phytosanitary policies, the existing norms from the various trade agreements were standardized, as well as a technical instance was created to improve risk assessment and consulting procedure times in pursuit of achieving the utmost admissibility of agricultural commodities.

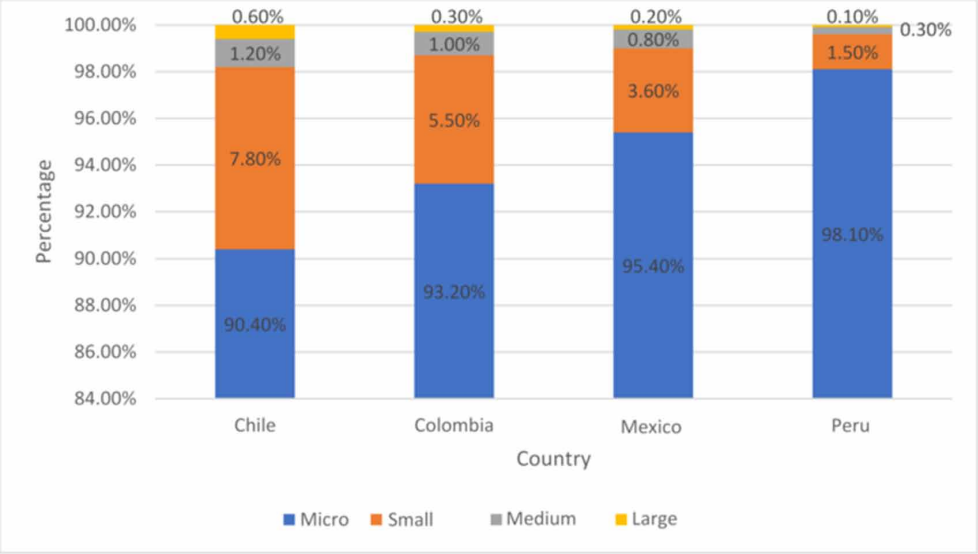
Apart from that, self-certifications from sanitary entities were accepted. Concerning the trade technical obstacles, the principles of transparency, cooperation, and conformity assessment efficiency set the relevant rules. Regarding, customs and trade facilitation matters[6], the member countries committed fully to dispatch goods within 48 hours, to implement anticipated termination upon tariff classification, valuation and origin criteria, and to work on the interoperability of the Single Window Facility for Foreign Trade. In terms of financial services[7], ensuring legal certainty to cross-border investors and service providers was sought. For the maritime services[8] there were established cooperation mechanisms seeking improved logistic competitiveness. This Supplementary Agreement came into effect on 1 May 2016.

The MSME Status in the Pacific Alliance

Setting up, developing, and strengthening of MSMEs are a relevant part of the Pacific Alliance subregional agenda. The Declaration of Paracas frames them as a cornerstone of the integration initiative to attain shared objectives such as a successful internationalization process, competitively, human capital development, entrepreneurship, amongst others. So much so that within the PA inner fabric the SME Technical Group is set as a clear mandate, leading to a direct growth on SMEs located in member countries through the socialization of best practices and the formulation of favorable public policies for this group of enterprises.

As shown on the figure No. 1, the MSMEs belonging to the PA account for more than 94% (on average) of all the enterprises from the member countries. This indicator follows the international pattern where it is reflected that most enterprises (more than 90%) are considered as MSMEs responsible for nearly

Figure 1. Classification of the enterprises regarding their size amongst Pacific Alliance members
Source: *OECD (2012)*



60% of the jobs at a global scale; this number can be correspondingly greater for emergent economies (OMPI, Organización Mundial de la Propiedad Intelectual, n.d.).

Regarding Colombia, MSMEs account for 83% of all the export enterprises in the country, see table No. 1. All the same contributing only 9% of the total export revenue (Confecámaras, 2016). Out of all the industrial goods export enterprises, 27% are MSMEs; 8% likewise regarding all the enterprises exporting services. On average, between 4% to 9% account for their total revenues (ANIF, 2016). Worthy of note is that the main reason the industry MSMEs do not export lies on a lack of interest. In contrast, the MSMEs offering services have an export vocation: 58% out of all the service enterprises surveyed on the *Gran Encuesta Pyme* stated having already thought about an internationalization plan for their company (ANIF, 2016).

Notwithstanding, at a Latin-American scale, only 18% of the MSMEs out of the regional mean value export. When it comes to the PA member countries, this value is even lower (OECD, 2015). As shown on Figure No. 2, the amount of MSMEs, within the PA, engaged in exporting is well below the Latin-American average.

Amongst the member countries, Colombia leads the group having a 16% of export MSMEs, followed by Chile on second place (14%), Peru (12%), and lastly, Mexico accounting for substantial underdevelopment: only 6%.

On the other hand, Figure No. 3 portraits nearly one third (35% average PA) of these enterprises are considered as mono-exporters. In other words, they export only one product in one country. This exposes a need for fostering innovation, competitively, internationalization, diversification, and sophistication of the MSMEs in the PA.

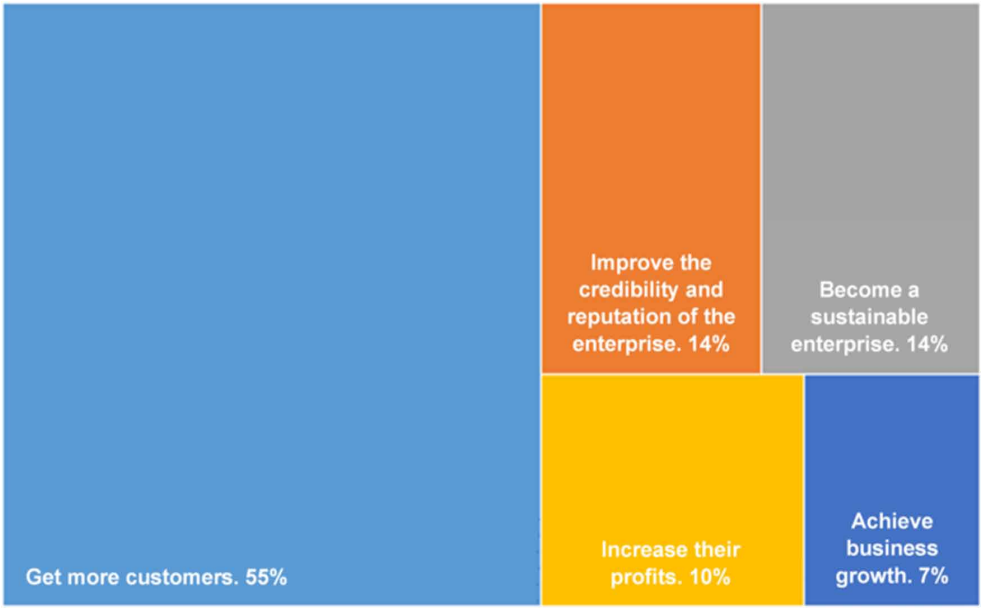
Amongst the PA member countries, Mexico and Chile hold a larger clustering of mono-exporters: 40% and 39% of the MSMEs, respectively, whereas Peru accounts for 30%. Colombia has the lowest percentage in the group: about 28%.

Table 1. Export in Colombia by the size of the enterprise in 2015

Size of the enterprise	% number of export enterprises	% out of all the enterprises
Large	17%	91%
SMEs	51%	8%
Micro-enterprises	32%	1%
TOTAL	100%	100%

Source: Confecámaras (2016)

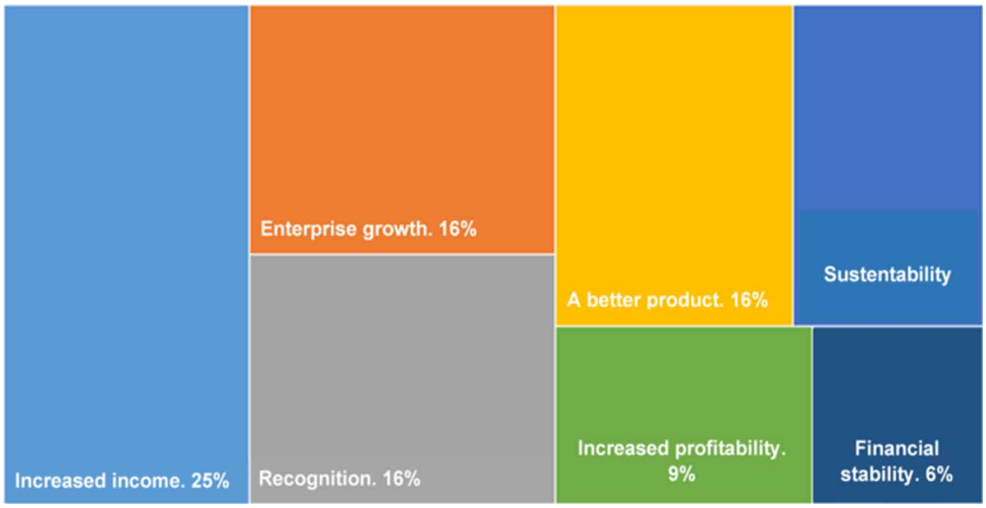
Figure 2. Percentage of MSMEs exporting by country or origin (years 2009-2010)
Source: *Suominen & Gordon (2014)*



In terms of the analysis provided by Suominen and Gordon (2014), the internationalization of MSMEs in Latin-America is built on three essential pillars: access to foreign markets, the survival of the enterprise for a long period, and the diversification in the exporting offer.

One of the most relevant flags on the quick characterization of the PA MSMEs is their survival rate in the foreign market during the first year of international operation. Based on Suominen and Gordon (2014), Figure 4 depicts the Peruvian MSMEs having a 45% survival rate, followed by Colombia: 42%; these two countries are above the PA average: 40%. As for Mexico and Chile, they are below the average: Mexico, 39%, and Chile, 32%. Despite this, there is a distinct pattern depicting a tendency in which the MSMEs export once before disappearing, owing to the competitive pressure or adverse market conditions.

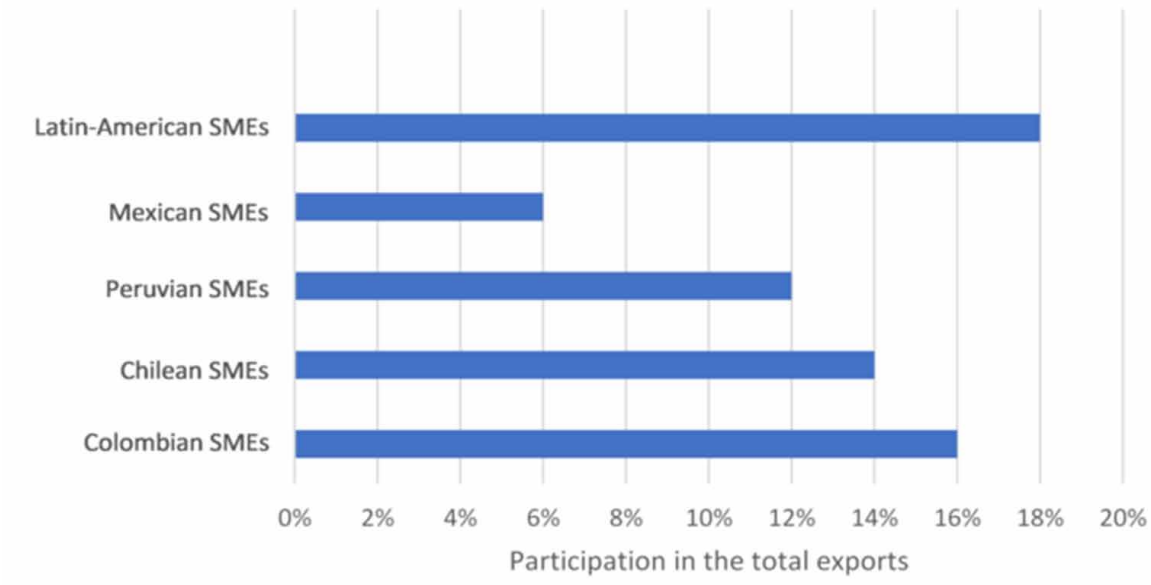
Figure 3. Percentage of mono-exporters by country (years 2007-2009)
Source: *Suominen & Gordon (2014)*



Suominen and Gordon (2014) make another remark concerning MSMEs having a high "turn-over" rate when they venture into the foreign market. It can be measured in terms of entry/exit.

This figure shows the "turn-over" previously described: the entry and exit rates for the PA are almost the same, having only one percentage point margin, 34% entry, and 33% exit. Mexico and Colombia reveal a higher exit rate at foreign markets. Contrary during the time of the study, Chile, and Peru display a higher entry vs. exit rate.

Figure 4. Entry, exit and survival rate at foreign markets (years 2007-2009)
Source: *Suominen & Gordon (2014)*



The Role of SMEs Into the PA Regional Value Chains

The reduction in the freight charges, the progress on the ICT and an increase in the free movement of goods, services, and capital have fostered offshoring of value chains[9] of different enterprises around the world (Asian Development Bank, 2015). These have changed their production processes and decided to carry it out in other countries. The described offshored has generated supply chains known as global or regional value chains. They are operated by anchor enterprises, mainly enterprises that base their production process on MSMEs. For some years now, the global value chains are important since they capture most of the international trade (Rosales, 2015), hence the activities contained within the process are, as a matter of fact, more important than the process itself (OECD, 2013).

Bearing in mind this reality, it becomes necessary to identify the characteristics of the MSMEs that joined regional value chains, recognize the benefits of this, and grasp the advantages thereon provided by the Pacific Alliance. Several studies have focused their analysis on understanding the characteristics needed for a MSME to successfully enter into a value chain at either local or global level (Arudchelvan & Wignaraja, 2015; Asian Development Bank, 2015; Measson & Campbell-Hunt, 2015; OECD, 2015b). These studies agree that an enterprise's competitiveness and its network are fundamental to achieve this. When these authors talk about competitiveness, they allude to the following fundamentals:

1. Product Quality Certification. One of the first filters used by the anchor enterprises when choosing new members to enter into their value chain is whether the good or service has international quality standards. This is because the quality of the outcome depends directly on the input quality (Sanetra & Marbán, 2001).
2. Innovation and/or technology absorption. The MSMEs in a global/regional value chain must be able to put into effect the technological tools and knowledge handed by the anchor enterprise (Ernst & Kim, 2002).
3. The service MSMEs might not have a competitive advantage *per se*, yet they offer a face-to-face service which is considered as an inherent strength when participating in regional value chains (CEPAL, 2013). In fact, some Central-American countries portrait the service MSMEs have had greater success entering global/regional value chains (SIECA, 2016). Likewise, la UNCTAD (2013) found one anchor enterprise based in the United States mainstreams more than 6.000 MSMEs into its value chain.

Apart from the Enterprise competitiveness, MSMEs need to work on building enterprise networks since this is the pathway to connecting with the anchor enterprise. Perceiving this as a requirement for entering value chains is consistent with the definition of the global value chain coined by Gereffi (1995). For him, these chains constitute a network of contacts and alliances between various service and goods providers that are run by an anchor enterprise and work together on developing and marketing a final good.

When a MSME gets to become part of a regional value chain, it obtains the following benefits:

1. The MSMEs linked to a national value chain are more productive than those that are not. (Elms & Low, 2013; Kowalski et al., 2015).
2. By indirect export, the MSMEs efficiently overcome international nontariff trade barriers (Stezano, 2013). This happens because the anchor enterprises usually purchase directly from MSMEs avoiding value-added for shipping (EXW).

3. By focusing on a specific process regarding the value chain, the MSMEs can specialize and generate economies of scale.
4. MSMEs receive a constant know-how transfer from the anchor enterprises.
5. A dependence reduction on the international market for the MSMEs (CEPAL, 2013). This is of relevance in the event of a financial crisis in the country where MSMEs are based.

METHODOLOGY

Calls for the use of case studies as methodological approach to analyze the internationalization patterns of firms have been found in relevant literature (Welch, et al., 2011). Furthermore, this article aims to answer to calls for further research regarding case studies focusing on the internationalization MSMEs (Hånell & Ghauri, 2016) and operating in the Latin American region (Haddoud et al., 2017).

By regional indicators, Colombia is the fourth largest economy by GDP, its population (48 million) represents the third largest domestic market and ranks fifth as most competitive economy and ease of access to foreign markets (WEF, 2017). In addition, Colombia is considered one of the most dynamic economies in terms of new business creation in the world (GEM, 2017).In recent years, Colombia has pursued an active trade policy and has signed to date 13 Free Trade Agreements (FTA) with regional and extra regional partners including the United States, the European Union, South Korea, Canada and most countries Latin American countries.

As mentioned previously, Colombia is the fourth largest economy in the region by GDP, but it ranks 124th in the exports to GDP ratio in the world (WEF, 2017). Regarding firm size, 93.2% of companies are considered Micro enterprises and 6.5% are considered Small and Medium in size, nonetheless, they account only for 1% and 8% of total Colombian exports, respectively (Confecamaras, 2016).

The case study method was chosen in connection with the objective of this study. By the same token, it allows analyzing the MSMEs internationalization process and their particular behavior (Dubois & Gadde, 2002). Owing to the need for an in-depth analysis of the MSMEs (Hånell & Ghauri, 2016) and study cases from developing countries (Mohamed Yacine Haddoud; Paul Jones; Robert Newbery, 2017), we went over 23 case studies of Colombian MSMEs exporting to any member of the Pacific Alliance.

The research design consisted of an exploratory focus and a qualitative approach (Yin, 2008). The specific method was face to face interviewing; the questionnaire was product of a literature review with open ended questions. Initially, the preselected group made up of 30 MSMEs was narrowed down to 23 by applying open-ended interviews following the guidelines proposed by Wright (2015). The questionnaire and the cases were validated by experts from Procolombia[10], the Chamber of Commerce of Bogota, the institutional representatives of the Textile and Apparel, and the Software and IT cluster of the Export Division of the Bogota City Mayor Office.

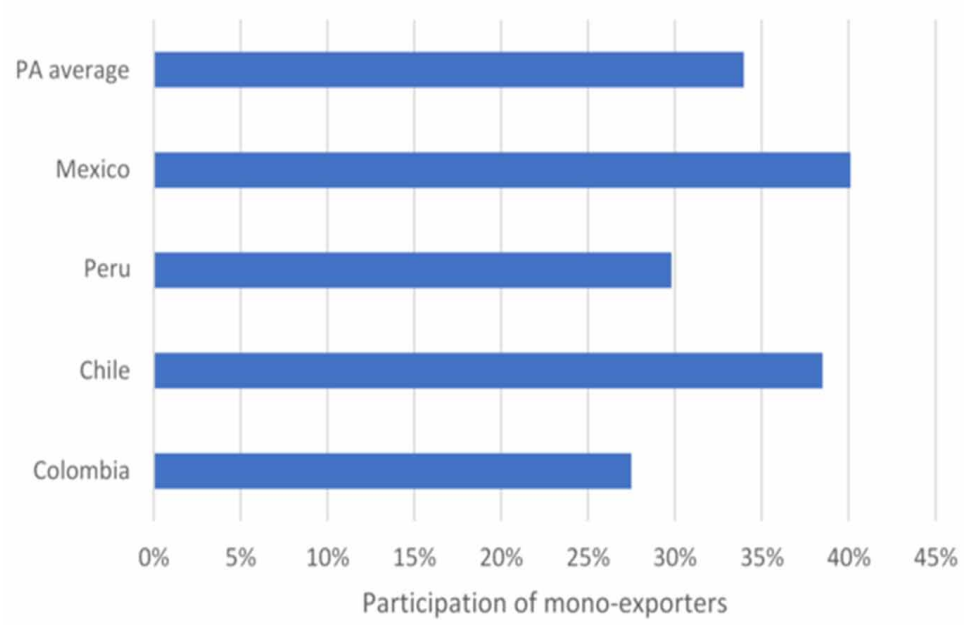
After collecting and running the initial analysis of the interviews, seven of them were ruled out due to their lack of knowledge or expertise by the part of the interviewee. Out of all the cases studied, 76% of them were managing directors, 19% foreign trade area managers, and 5% (its equivalent for an enterprise) accounted for chief procurement officers. The interviews were carried out individually. To analyze and process them, the QDA Miner software was used to classifying and codifying data QDA Miner (Rubin & Rubin, 1995).

The 23 case studies were categorized on micro or small enterprises in line with the Colombian law which defines a micro-enterprise as an enterprise having less than 10 employees or assets for less than

500 times the statutory monthly minimum wage. It also describes a small enterprise as an enterprise having 11-50 employees or assets for 501-5.000 times the statutory monthly minimum wage. 78% of the interviewees account for small enterprises; 22% are micro-enterprises. Even so, the average number of employees working is 14. Having said this, these small enterprises seem to be closer to being considered as micro-enterprises rather than medium enterprises.

The preferred export destination for MSMEs is Mexico (46%), followed by Peru (38%) and Chile (17%) (approximate values). These numbers move closer to what is established by the gravity model of international trade which predicts bilateral trade flows based on the economic sizes and distance in terms of GDP. In this case, Mexico has the biggest GDP amongst the member countries in the Pacific Alliance.

Figure 5. Export targets of partner companies of members of the Pacific Alliance
Source: *Authors.*



The following TreeMap (Figure No. 6) shows the other export destinations outside the Pacific Alliance. In total, MSMEs export to other 15 countries: Ecuador (18%), the United States and Panama (15% each), and Guatemala (12%). Exporting mainly to countries geographically close to them is in line with the Gravity Model (Helpman & Krugman, 1985; Isard, 1954; Tinbergen, 1962).

As evidence of what is portrayed in Figure No. 6, the export destinations are mainly regional, leaning towards the American continent. However, exports to Germany (6%), the United Emirates (3%), and Japan (3%) are also relevant. This overview can be perceived as a big opportunity for MSMEs to come onto even more distant and diverse markets.

Regarding the origin country of their imports, 82% account for China and the United States alone. It is important to point out that 40% of the MSMEs export to more than one country and 50% also perform import operations. These figures established that once an enterprise becomes successful on a market, it is also highly likely that it experiences enhanced foreign trade operations.

Figure 6. Export targets different from members of the Pacific Alliance
Source: *Authors.*

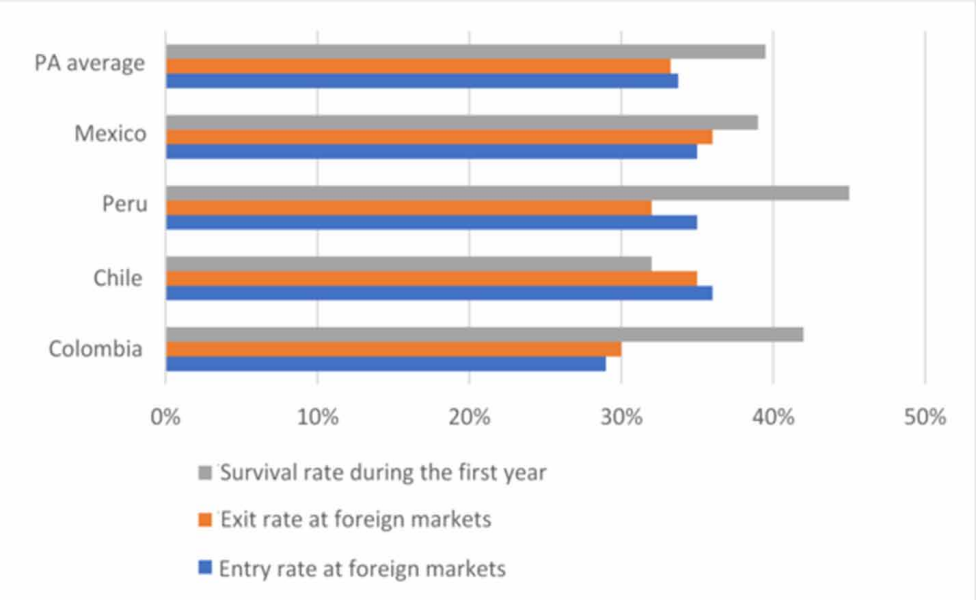
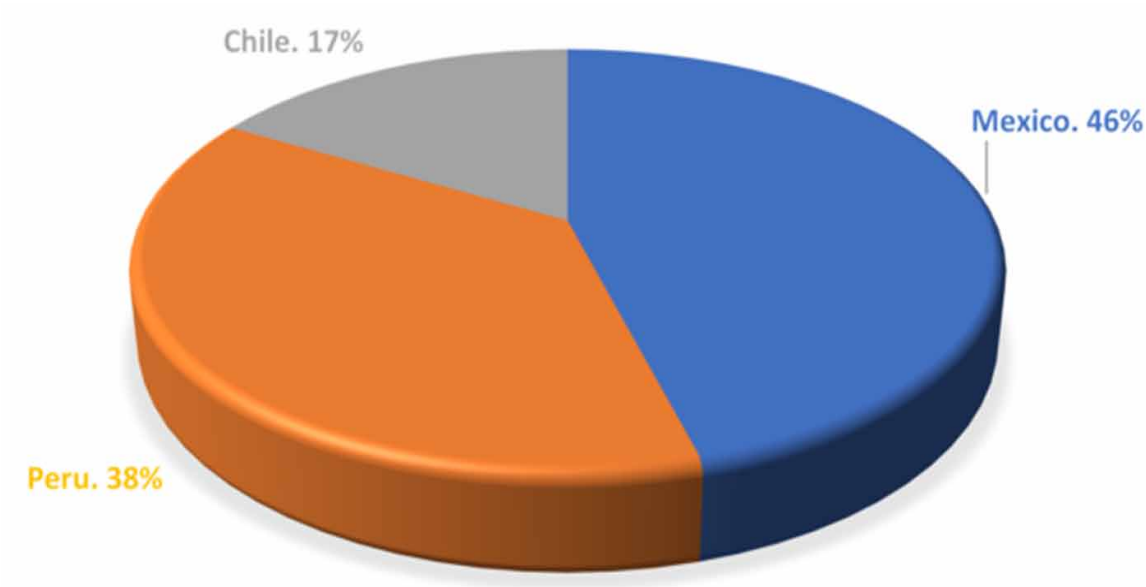


Figure 7. Origin of imports to the MSMEs interviewed
Source: *Authors.*



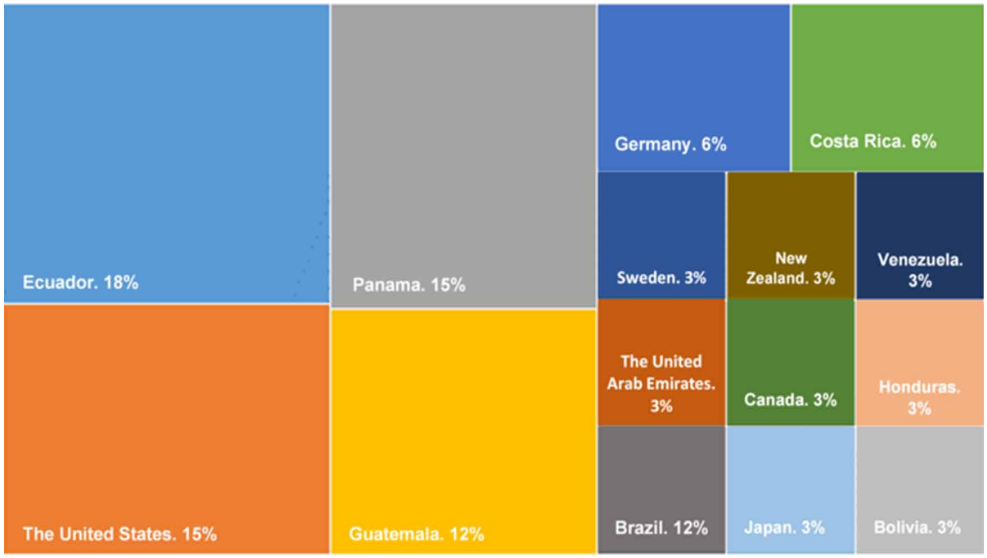
RESULTS AND DISCUSSION

Figure No. 8 shows the internationalization process followed by most MSMEs studied exporting to the Pacific Alliance. This process begins creating networks, either national or international. This can benefit building networking when fairs and business roundtables or breed other kinds of "*leads*" leading towards internationalization (Gil-Barragan & Palacios-chacon, 2018).

Next, these networks help MSMEs to identify business opportunities in any of the members of the Pacific Alliance. In other words, they can more readily choose what country to begin to export to in pursuit of internationalization. This process is fully consistent with the Born Global and Uppsala identify trading opportunities abroad (Acedo & Jones, 2007; Coviello, 2015; Ellis, 2011; Zhang et al., 2012). Moreover, there is a third stage consisting of interpreting these opportunities as internationalization goals once they have been identified in foreign markets. The fourth step entails MSMEs to seek specialized advice on overcoming obstacles with the aid of government entities, chambers of commerce, or consultants.

Once these steps were completed, the MSMEs studied attained their internationalization goal: they reached out to the anticipated markets and customers. Nonetheless, it is considered relevant to keep on studying the survival process of MSMEs that successfully entered into international markets, and in turn, to determine the possible reasons leading to exit a market and consequently to reduce the exit risk.

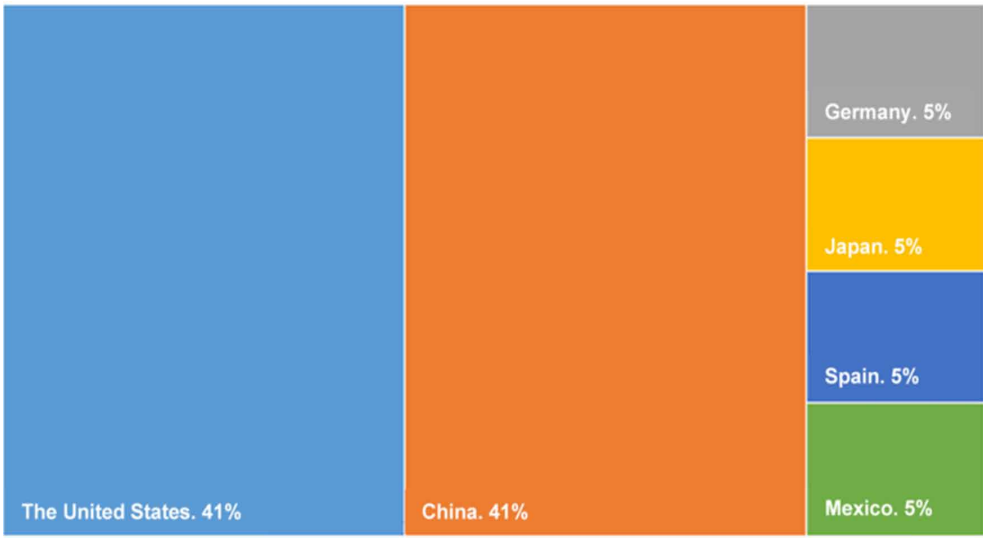
Figure 8. Internationalization model used by the surveyed enterprises to export with the Pacific Alliance members
Source: *Authors*



Out of the 23 MSMEs surveyed, 78% established that their networks helped them get their first customer within the Pacific Alliance. In brief, these enterprises pointed out the aid of a local client, an ally abroad, as well as forums and business roundtables to attain their first international sale to any of the member countries of the Pacific Alliance.

The remaining percentage stated that their initial internationalization stage occurred thanks to the assistance of a public institution (11%), of the Internet (7%), or by traveling to the target country to better understand its market (4%). As a strategy to ensure confidentiality, we have chosen to use pseudonyms (Greek letters) hereon to name some cases of some enterprises analyzed in this study.

Figure 9. The method used to get the first client belonging to the Pacific Alliance
Source: *Authors.*



For instance, Alpha spotted its first business opportunity in Mexico through a local client. Alpha is a small export enterprise specialized in electronic engineer products and communications equipment for armored vehicles shipping to Peru, Venezuela, Ecuador, Central America, the United States, and Canada. Its first export dates to 1998 when it just started as a micro-enterprise. As one of their local clients introduce them to a supplier based in Mexico, this company saw an opportunity for greater success in a foreign market remarkably like the one in Colombia. This encounter helped them to learn about foreign commerce, how to export to other markets and to improve invoicing when reaching foreign markets.

Likewise, Beta also identified business opportunities in Chile because of some clients providing them with this information. Beta is a small enterprise that resolved start exporting out of necessity as numerous enterprises stopped reaching them due to the fall in oil prices. They got their first clients abroad thanks to the advice of some multinationals they worked with in Colombia. They currently export engineering services to Peru, Guatemala, and Panama, and are also exporting to some members of the Pacific Alliance. This export has allowed them to maintain their income despite the undergoing crisis in this sector in Colombia.

Conversely, Gamma found a break in international networks. Gamma is a microenterprise specialized in exporting jewelry, handcrafting, and speakers to Mexico, Australia, United States, Italy, and Germany. Its internationalization process started because some foreign customers who used to buy them at their shop in Bogota provided ideas and information on their origin countries which persuaded them into exporting. Some would even bring them in contact with enterprises abroad.

Comparably, Delta and Epsilon kicked off their internationalization process on business roundtables. On one hand, Delta is a micro-enterprise focused on developing digital content. In 2009, they profited from the worldwide reputation of Colombia in this area to launch themselves into the exporting market. At present, they export to Mexico, Germany, and the United States. They credit their success to their participation in the business roundtable organized by the Secretariat of Economic Development for Bogota and Procolombia. On the other hand, Epsilon is also a micro-enterprise that works providing software solutions to Peru and Chile –although their original target was Mexico. They jumped into the international market during some pieces of training they assisted to and their participation in a business roundtable, whereby they made some good connections towards new potential clients.

Zeta pioneered in their internationalization process through the networking framed during a forum. This enterprise designs digital platforms for sustainable transport. They decided on searching for new markets to increase their sales volume, make us of their innovation and test it in markets like that found in Colombia. They first exported to Mexico and now are on their way towards Peru. Their first contacted clients in Mexico during a forum, which brought upon them reputation and has helped them to increase their sales in Colombia and become more appealing to investors. The owner describes the Pacific Alliance as a highway meant to arrive faster and easier to Mexico, Peru, and Chile.

One of the main reasons described herein for the MSMEs to export is a generalized motivation for keeping customers on the rise. In fact, 55% of the interviewed agree on this. Other important reasons were achieving sustainability (14%) and attaining recognition and reputation (14%).

Once the MSMEs have identified an opportunity within the Pacific Alliance and determined their internationalization goal, they searched for expert advice on how to overcome the different obstacles during their processes. Out of the studied enterprises, 31% obtained expert advice on public institutions or private consultants. This is conceptually related to the empirical findings made by Fletcher y Harris (2012). These authors stated that MSMEs find it difficult to hire experts on internationalization due to resource constraints; they usually obtain expert advice through public institutions and/or private consultants instead.

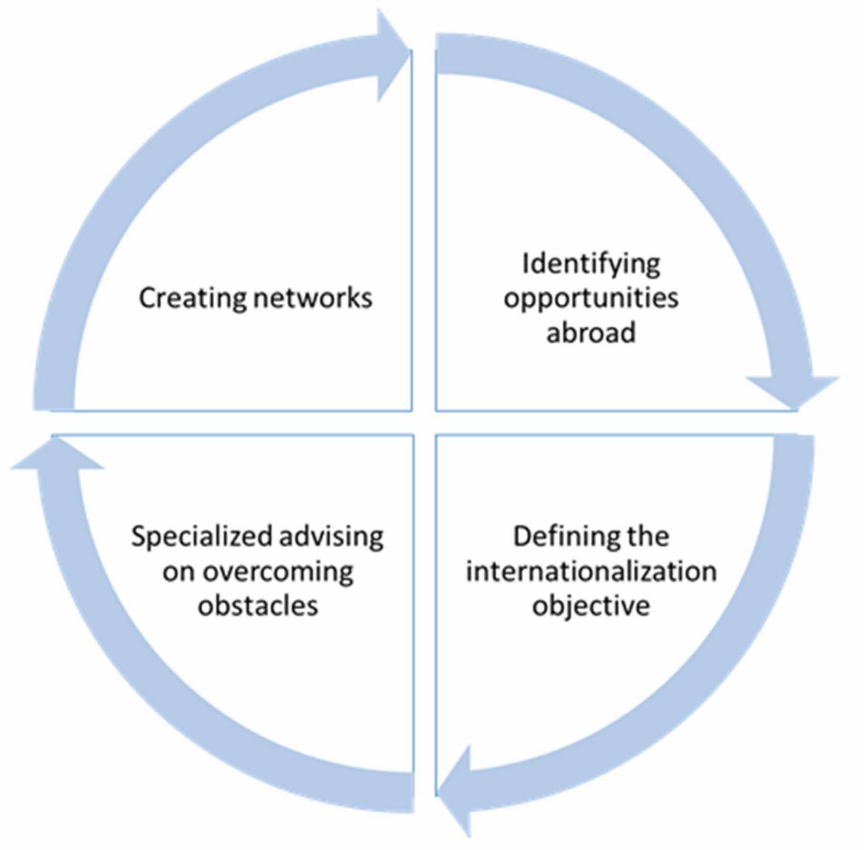
In addition, the lack of information and experience lull MSMEs into the following misguided assumptions –which hinders starting an export process (Chung, 2016; Laurin, 2013):

1. Assume their goods or services cannot be exported.
2. Assume exporting is too risky.
3. Assume they lack knowledge or resources to export.
4. Assume it is better to go small otherwise you might lose control of the enterprise.

The encountered by the MSMEs interviewed indeed depicts these generalized fears, but also that they can be overcome through the correct guidance coming from different public institutions: 26% out of the MSMEs studied remarked the importance of improving the quality of their products.

Eta is a great example of this. They conquered their obstacles because of the accurate advice given. Eta is an enterprise that manufactures and sells “Butt-lift” denim jeans to Mexico, Guatemala, and Costa Rica. They first opted for exporting to Mexico because a Mexican company reached out to them for a business opportunity. Once they got a client, they decided to seek out advice on what to do to benefit from this opening.

Figure 10. Definition of the internationalization objective
Source: *Authors*



In the same vein, finishing up with some comments from the owners, the owner of Zeta quotes: "*exporting is worth the risk. What you don't know can be learnt through guidance and by leaning on public institutions offering free counseling*"[11]. The owner of Iota voiced that *"from the very first export, things must be done well and on conducted lawfully. It is also advisable to seek out counseling and information on the target market. To do that, Colombia offers various public institutions meant to help us*"[12]. Finally, the owner of Kappa established that: *"having clients motivated us to start on this path; aspiring to capitalize this opportunity led us to benefit from the counseling on exporting offered by diverse public institutions. This is the reason why I strongly advise you to take these free counseling"*[13].

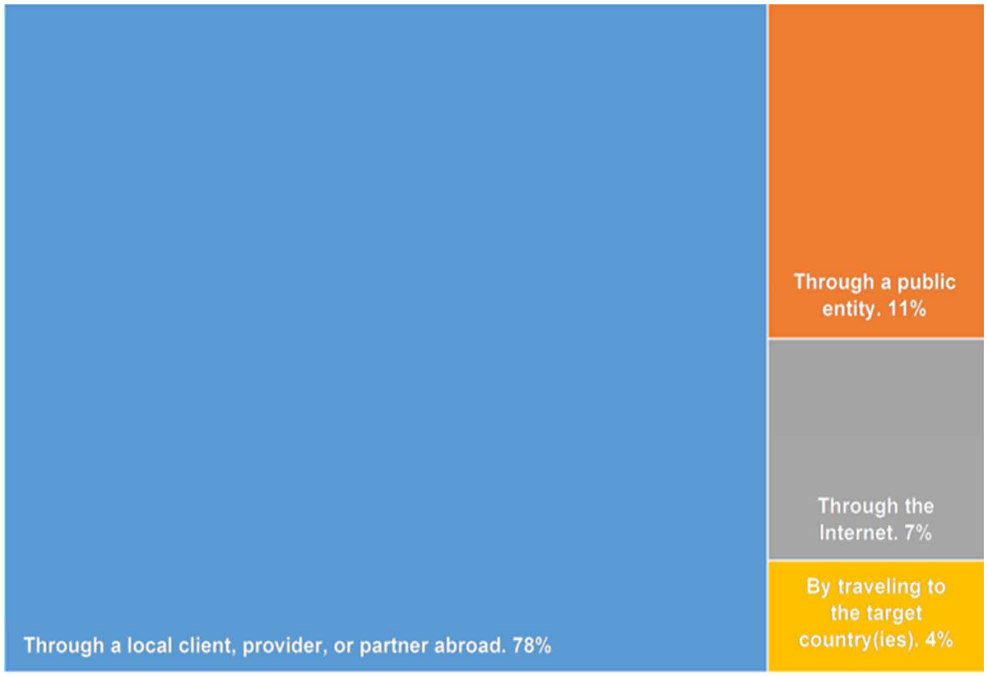
The main benefits expressed by exporting MSMEs when entering into international markets can be summed up in the figure No. 11. On the figure, 25% indicated increased revenues, 16% said this had contributed to their business growth, and another 16% claimed to have a better product and more knowledge on this area.

In most of the cases, having a strong network and a clear internationalization goal was a strong motivation for seeking out consulting from public institutions in Colombia on how to start exporting. In order words, it seems that networking provided the needed motivation for the MSMEs to go deeper into this area assisted by public institutions and advisors (as proposed by Fletcher and Harris, 2012). This judgment is fully consistent with what Harms and Schiele (2012) stated about the significance of moti-

vation throughout the internationalization process. Those MSMEs that underwent a conversed process (they first sought out counseling, then they got contacts) alleged that the process proved to be lengthy and stuffy; they even thought about aborting it.

Guidance starts with an appraisal, followed by training in which they start creating an export scheme. Next, there is the product preparation. In some cases, there is an additional final step: a business roundtable. Howbeit, a solution to improve effectiveness could lie in a first step consisting of "*networking*" sessions meant to help MSMEs find motivation, leading to more accurate training and product preparation processes and a product poised for launch to the international arena.

Figure 11. Major benefits for the export SMEs
Source: *Authors.*



CONCLUSION

In the first instance, this chapter is due to the need expressed by some authors reviewed to deepen the study of micro, small and medium enterprises within the framework of the trade agreements concluded between the member countries. Furthermore, as it was found in the literature, the MSMEs embody first and foremost the most prominent type of enterprises in the Pacific Alliance as well as on a global scale. Likewise, MSMEs create a significant number of jobs around them. Therefore, a further study having as the focus the internationalization process of the MSMEs might bring about knowledge and a better understanding of these organizations. Despite the Pacific Alliance being one of the most recent examples of an international agreement, the gains made are important when it comes down to fathoming trading between the members. A fundamental element of the Pacific Alliance is the role the MSMEs play in the agreement. From supporting presidential statements after international summits to the instrumentaliza-

tion of public policies regarding their value, there is a leading position occupied by the MSMEs on the political and economic agenda of the PA member countries.

The creation of a MSME Technical Group underlines the importance these enterprises have on regional integration. It is also relevant to highlight the measures taken to encourage and promote the creation and participation of MSMEs, to achieve harmonization of instruments, to facilitate trade, and to reduce bureaucratic procedures. Some actions taken such as those concerning the cumulation of origin, the mechanism to fight scarcity, and the access to government procurement are clear evidence of an intention of advocacy and promotion by the member states. Some strategies along the same line by the part of the Pacific Alliance comprise the business roundtables, the international fairs and the creation of funding options offered by the Venture Capital Funds, the "Exporta Fácil" program and the minimization of the paperwork with the interoperability of the Single Window for Exports (VUE).

For this reason, the methodological approach focuses on the analysis of 23 Colombian MSMEs from various branches of economic activity having a proven internationalization record. In other words, they must have attained international trading with any member of the Alliance. Amidst these findings, the way the interviewed MSMEs attained internationalization stands out, wherein the first stage is the creation of networks either by referrals, clients, or suppliers or during business roundtables and forums. Once achieved, they had better chances of identifying and creating a product (second stage). The third stage consisted of defining the internationalization goal of the Enterprise. Amongst the MSMEs studied we found that the predominant goal is finding new customers (55%), followed by the search for an improved profile and a better reputation when entering a new market (14%); another 14% accounted for enterprises seeking out sustainability. After these three stages, finding specialized counseling from government agencies, chambers of commerce, or consultants on international trade are considered the next stage in the search for a successful internationalization process.

The enterprises studied herein followed this process flow and successfully meet their internationalization goal, resulting in higher incomes, company growth, recognition, a better product and service provision, greater rates of return, sustainability in the short term, and financial stability. However, the selected analytical and methodological approach provides only a snapshot view of the selected firms. This might be an opportunity to call for research designs and methodologies that allow a longitudinal outlook to understand the evolution, performance, survival, and other relevant indicators of MSMEs in international markets.

As it was mentioned before, this study entails obvious limitations. Nevertheless, this can also be an opportunity to beckon researchers, scholars, entrepreneurs, and public officials as a strategy to enlarge and delve into the study of the internationalization of MSMEs within the frame of regional integration agreements. It is considered relevant to carry out similar case studies in which some diverse set of variables, not mentioned in this document, are considered. Another further suggestion is to group the enterprises by economic activity to have new perspectives of each sector. Even more important is to make allowance for other regional integration efforts contributing to the ongoing debate on the internationalization of enterprises in Colombia and the Pacific Alliance.

FUTURE RESEARCH DIRECTIONS

The prevalence of MSMEs and the institutional arrangements of Regional Trade Agreements influencing the internationalization process of these firms open vast opportunities to iterate similar research designs

and pursue related research avenues. Case studies with diverse but related variables of interest, focusing on specific economic sectors and the comparison of the institutional frameworks in competing or overlapping RTA membership, seem to offer a fertile field of research to advance the understanding of the internationalization process of MSMEs and the evolving role of the institutional that support them.

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ENDNOTES

[1] 1. Initial provisions; 2. General definitions; 3. Market access; 4. Rules of Origin; 5. Trade facilitation and Customs cooperation; 6. Sanitary and phytosanitary policies; 7. Technical trade barriers; 8. Public procurement; 9. Cross border trade in services; 10. Investment; 11. Financial services; 12. Maritime services; 13. Electronic commerce; 14. Telecommunications; 15. Transparency;

16. Management of the Additional Protocol; 17. Dispute settlement; 18. Exceptions and 19 Final provisions.

[2] The trade agreements of Colombia with these countries: Chile – Economic Complementation Agreement 24 (known by its Spanish acronym ACE) in 1993 and the Free Trade Agreement (FTA) in 2009; Mexico – G3 in 1995 and FTA in 2011; and Peru –the Andean Community (known by its Spanish acronym, CAN) in 1969/1997.

[3] For Colombia, on the trade agreement with Chile there are 41 excluded goods. Regarding the agreement with Mexico, there are 413 subheadings exempted, including coffee.

[4] For Colombia, a scarce supply is only present on the FTA with Mexico.

[5] For Colombia, this is a new chapter with Peru since it is not included in the Andean Community.

[6] For Colombia, this is a new chapter with Mexico.

[7] For Colombia, this is a new chapter with Chile.

[8] For Colombia, this is a new chapter with Chile, Mexico and, Peru.

[9] A Value Chain of an enterprise is the set of activities that must be carried out to produce a good or offer a service. Amongst these, there are innovation and research activities, designing, raw material processing, manufacturing process, marketing, and sales.

[10] Procolombia is the country export promotion agency.

[11] Original in Spanish: "Arriesgarse a exportar vale la pena. Lo que ustedes no saben lo pueden aprender a través de contactos y apoyándose en las instituciones públicas que brindan asesoría gratuita".

[12] Original in Spanish: "Desde la primera exportación se deben hacer las cosas bien y legales. También es recomendable buscar asesoría e información sobre el mercado al que se quiere exportar. Para esto, contamos en Colombia con varias instituciones públicas que nos pueden ayudar".

[13] Original in Spanish: "Tener el cliente nos motivó a empezar este camino, y querer capitalizar esta oportunidad nos llevó a aprovechar la asesoría que diversas instituciones públicas otorgan para el proceso de exportación. Es por esto, que les recomiendo aprovechar las asesorías gratuitas".

Chapter 21
The Effect of Export Diversification on Economic Growth: The Case of the BRICS-T

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ABSTRACT

There are many studies on the growth of emerging economies under the leadership of foreign trade in the literature. The majority of the mentioned studies reveal that exports increase growth. In addition to expressing the increase in exports in numbers in recent years, it is also seen that researches about its effect on growth are also prominent. In this context, Dumitruscu-Hurlin (2012) panel causality test was applied using data covering the period of 1990-2018 to determine the relationship between Turkey and BRICS countries' product diversification in exports and economic growth. Findings obtained shows that product variety in exports in the relevant country group is effective on long-term economic growth.

INTRODUCTION

When the economies of developed countries are analyzed, it is seen that their share in global foreign trade is high. Foreign trade in the growth and development of national economies has an important place. In many analyzes on the economies of developing countries, the increase in export rates and the increase in growth rates were in parallel.

Some developing countries have been named as the emerging economies of the markets with their foreign trade policies and successful performances. The countries that are most affected by the fluctuations in exports are the countries with high export revenues in the global markets. Countries that depend

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on one or more products in their exports will have a negative impact on the country's economy and the country's growth rates, as the prices of the products fall. One of the best methods against fluctuations in export revenues is the diversification of products in the export basket. Countries with increased export basket, the number of products they export are less affected by fluctuations and instability in export revenues is minimized.

One of the most important reasons why BRICS country group has high growth rates in recent years is rapidly increasing diversified production and high export performance. When the global economies are analyzed, the export rates of developed countries and developing countries are much higher than the economies of underdeveloped countries and the product range they export is quite wide. Studies in the literature suggest that export diversification increases economic growth. In addition to export diversification, market diversification also positively contributes to economic growth.

Turkey and emerging economies called BRICS countries, in their foreign trade, have taken important steps towards integration with liberal policies and the global economy. With their rapidly growing economies in the last two decades, BRICS countries have a voice in the world foreign trade. The most important exporting countries of the world are in this group.

In the second part of the study, the relationship between economic growth and exports has been tried to be explained theoretically. In the third part of the study, literature study is included. In the fourth part of the study, some macroeconomic information on the BRICS group of countries and Turkey's foreign trade are included. In the fifth part of the study, econometric analysis has been done and finally the evaluation of the results has been given.

ECONOMIC GROWTH AND EXPORT DIVERSIFICATION

Economic growth refers to the increase in the capacity of goods and services produced in an economy over time. In order to mention on economic growth, long-term and continuity must be present. In this context, economic growth refers to the increase in real product per capita in certain periods. That is to say, economic growth is not a static phenomenon that can be measured in the short term, but a dynamic phenomenon in the long term (Taban, 2008).

The economic growth process is a dynamic process that involves many factors. The export-based growth hypothesis is a common view among economists, where growth is one of the main determinants. The growth policy led by exports is based on David Ricardo, which is the basis of the opinion that it has a positive effect on industrialization and development. If the foreign currency required for the growth of the economy in a country cannot be provided and as a result of this situation, exposure to negative consequences in the balance of payments reveals that countries should implement an export-based economic growth policy. It is observed that the countries implementing an external trade policy, especially countries with successful export rates provided more national income growth. So according to these views, the increasing total exports is one of the most important ways to increase the economic growth rate. In order to increase total exports, the production of goods and services in the domestic market needs to be increased, assuming that this increases growth (Taş, 2011: 21).

Since the second half of the 20th century, rapid increases have occurred in globalization and cross-border trade. With the effect of external shocks, countries where export revenues are important in foreign trade have some instabilities in foreign trade revenues. These countries have applied to expand their product range to reduce the effect of fluctuations in external export. Export diversification is changing

the existing basket of goods in the export structure of a country with the effect of innovations and technology, ie expanding the product range of the country. Export diversification prevents export instability or the negative effects of terms of trade on primary products. To avoid fluctuations in foreign currency revenues in countries, expansion of the export base, a more diversified national trade portfolio is required. Due to the lack of export diversity in developing countries, declines and fluctuations in exports negatively affect income, and consequently negatively affects macroeconomic fundamentals such as investment and employment. According to the economic development theory, the degree of expertise and diversification of a country's production and trade structure is crucial for economic development. Many countries exhibiting a commodity-dependent or narrow export basket are often exposed to export instability due to inelastic and unstable global demand. Therefore, export diversification is a way to alleviate these restrictions (Hesse, 2008: 2).

Horizontal export diversification; is to apply to increase the product range provided that they stay in the same production area or the same sector. To reduce the effect of fluctuation in prices, it causes changes in primary merchandise baskets. The company that produces leather shoes starts to produce leather bags, a company that produces mobile phones produces tablets are examples of horizontal diversification. The most important goal in horizontal diversification is to reduce dependence on several sectors for export-oriented growth.

Vertical export diversification; is to expand the product range by producing in different fields of activity from the current line of business or at different stages of the production process. The orientation of the raw material producer to semi-finished products or final products, and the textile manufacturer's orientation to the food field can be given as examples to vertical export diversification (Taş, 2011: 28).

LITERATURE REVIEW

Issues such as the direction and degree of influence of the relationship or interaction between export / export diversification and economic growth have been one of the main macroeconomic issues debated by economists for a long time (Abdulai and Jaquet, 2002, 59). The issues that economists are investigating in this context are econometric direction, degree in economic growth interaction mechanism with export / export diversification basket, whether they are integrated and whether exports affect economic growth or economic growth or exports (Akbar and Naqvı, 2000: 14). Differentiation of the findings obtained as a result of the studies on export-based growth has created studies that take into account the relationship between export diversity and growth as well as the composition of exports (Bayraktutan, 2003).

In his study, Michealy (1958) used the Gini Coefficient for 44 countries, as a result, it has been determined that countries that have more diversified their products in the export basket have better per capita income than others. On the other side, Wilhelms (1967) investigated the vertical diversification and horizontal diversification and stated that export diversification is not a single goal, its main purpose is to prevent irregularities in the export structure and to decrease the instability in foreign exchange revenues due to the country's dependence on several product baskets. According to Wilhelms (1967), export diversification has two important effects: the increase in export revenues and the possible fluctuations in the economy are the risk of being negatively affected. The second important effect is the country's export diversification will have positive effects on economic growth as a result of the steady increase in income level. Macbean and Nguyen (1980) examined the relationship between product concentration

and export revenues. As a result of the study, they stated that the market diversity and product diversity of the countries that achieved stability in export revenues are at an advanced level.

Agosin (2007) examined the export diversification for Korean, Taiwan, Mauritius, Finland, Chinese and Chilean economies, used data from countries between 1980-2003 and concluded that export diversification in these 6 countries had a significant impact on the increase of per capita national income. On the other side, Çeviker and Taş (2011) carried out a study on the relationship between export diversification and economic growth in Turkey for the period of 1962-2008 through Granger causality test and revealed no significant causality towards diversification level, export amount and economic growth, but revealed a relationship in the direction of economic growth, export amount diversification level. Çeviker et. al. (2010) examined the level of product diversity in the trade between Syria and Turkey for the period of 2001-2008 and revealed that Turkey was more successful than Syria in diversifying its exports and export diversification had a positive effect on the growth of Syria's economy.

Taş (2011) analyzed the relationship between export diversification and growth in Turkey for the period of 1962-2008 and revealed no causal relationship between export diversification and economic growth in Turkey. Lastly, Acaravcı and Kargı (2015) investigated the causality relationship between export diversification and economic growth in Turkey for the period of 1995-2012 and concluded that there was no cointegration relationship between real physical investments per capita, openness ratio of the economy, real income GDP and product diversity in exports and also no Granger causality relationship among the variables.

TURKEY'S FOREIGN TRADE AND GROUP OF BRICS COUNTRIES

Turkey's Foreign Trade

Although there have been fluctuations in Turkey's foreign trade over the years, there have been significant increases in export and import figures. Between the years of 2000-2014, Turkey's exports increased approximately 6 times. Increases in foreign trade continued rapidly from 2002 to the end of 2008. Exports, which were 27.7 billion dollars in 2000, reached 107.2 in 2007, later it exceeded $ 132 billion in 2008. The global financial crisis in 2008 also negatively affected the Turkish economy, export and import figures have decreased. In 2009, exports fell to 102 billion dollars. Export growth has continued since 2010 and reached 157.6 billion dollars in 2014 (Sungur, 2015: 243-269). Since 2014, there has been a periodic decline in Turkey's exports due to political and social reasons in the country.

Turkey's foreign trade is sharply different from previous periods after 1980. After the 1980 period, foreign liberal policies were implemented. Liberalization of foreign trade and industrialization strategy in exports have been adopted. Since 1980, the incentives applied to increase the share of industrial products in exports have been effective.

Between 1980-2017, the share of industrial products in exports increased from 36.6% to 93.7%. In parallel with the increase in the ratio of industrial products in exports, share of agricultural products in exports decreased (Hepaktan, 2007).

Considering the rates of Turkey's export values, it is seen that EU countries are the most basic market. After the EU countries, other important export partners of Turkey are Middle East countries and Asian countries.

Table 1. Turkey's Foreign Trade 2000-2018 Period (Million $)

Years	Export	Import	Foreign Trade Balance	Foreign Trade Volume	The Ratio of Exports to Imports %
2000	27 774 906	54 502 821	-26 727 914	82 277 727	51.0
2001	31 334 216	41 399 083	-10 064 867	72 733 299	75.7
2002	36 059 089	51 553 797	-15 494 708	87 612 886	69.9
2003	47 252 836	69 339 692	-22 086 856	116 592 528	68.1
2004	63 167 153	97 539 766	-34 372 613	160 706 919	64.8
2005	73 476 408	116 774 151	-43 297 743	190 250 559	62.9
2006	85 534 676	139 576 174	-54 041 499	225 110 850	61.3
2007	107 271 750	170 062 715	-62 790 965	277 334 464	63.1
2008	132 027 196	201 963 574	-69 936 378	333 990 770	65.4
2009	102 142 613	140 928 421	-38 785 809	243 071 034	72.5
2010	113 883 219	185 544 332	- 71 661 113	299 427 551	61.4
2011	134 906 869	240 841 676	- 105 934 807	375 748 545	56.0
2012	152 461 737	236 545 141	- 84 083 404	389 006 877	64.5
2013	151 802 637	251 661 250	- 99 858 613	403 463 887	60.3
2014	157 610 158	242 177 117	- 84 566 959	399 787 275	65.1
2015	143 838 871	207 234 359	- 63 395 487	351 073 230	69.4
2016	142 529 584	198 618 235	- 56 088 651	341 147 819	71.8
2017	156 992 940	233 799 651	- 76 806 711	390 792 592	67.1
2018*	167 967 219	223 046 481	- 55 079 262	391 013 699	75.3

Source: Turkish Statistical Institute. 2019a. It was compiled by the authors from the Turkish Statistical Institute website.

BRICS Countries

With the rapid rise of BRICS countries, world power balances are changing. The BRICS country group is called the rising power in the world economy market. By 2050, it is foreseen that 40% of world production will constitute in terms of Brazil, China and India power parity. With its rapidly growing economies and constantly attracting foreign investors, these countries stand out from other countries with their growth and development performances. Brazil, China, India, Russia have become an important player in the global economy with their rising economic performances and hence have been named BRIC by Jim Oneill (Haıbın, 2012). The ministers of the BRICS countries established in 2011 organize meetings in the economic, cultural and social fields, and discuss important issues such as technology, science, national security, etc. Besides the BRICS country group economic cooperation, they also stated that they will cooperate in the solution of global problems. They have taken many steps to establish a multipolar and democratic order against unipolar western groups in the world. They have taken a common attitude towards the solution of problems in countries such as Africa, South Sudan and they have mediated to solve these problems.

Table 2. Turkey's Export Distribution by Sector in 2000-2017 Period

Years	Agriculture	Mine	Industry
2000	6.0	1.4	91.9
2001	6.3	1.1	92.0
2002	4.9	1.1	93.5
2003	4.5	1.0	93.9
2004	4.0	1.0	94.3
2005	4.5	1.1	93.7
2006	4.1	1.3	93.8
2007	3.5	1.5	94.2
2008	3.0	1.6	94.8
2009	4.3	1.6	93.4
2010	4.3	2.4	92.6
2011	3.8	2.1	93.4
2012	3.4	2.1	93.9
2013	3.7	2.6	93.1
2014	3.8	2.2	93.3
2015	4.0	1.9	93.4
2016	3.8	1.9	93.7
2017	3.4	2.2	93.7

Source: Turkish Statistical Institute. 2019b. It was compiled by the authors from the Turkish Statistical Institute website.

Table 3. Turkey's Export Distribution in of 2014-2018 period by country (Billion $)

Order	Country	2018	2017	2016	2015	2014
1	Germany	16 141 434	15 118 910	13 998 653	13 417 033	15 147 423
2	United Kingdom	11 109 630	9 603 189	11 685 790	10 556 393	9 903 172
3	Italy	9 561 168	8 473 471	7 580 837	6 887 399	7 141 071
4	Iraq	8 349 641	9 054 612	7 636 670	8 549 967	10 887 826
5	USA	8 304 910	8 654 268	6 623 347	6 395 842	6 341 841
6	Spain	7 710 390	6 302 135	4 988 483	4 742 270	4 749 584
7	France	7 288 192	6 584 199	6 022 485	5 845 032	6 464 243
8	Netherlands	4 761 810	3 864 486	3 589 432	3 154 867	3 458 689
9	Belgium	3 951 347	3 151 422	2 548 240	2 557 805	2 939 108
10	Israel	3 894 525	3 407 436	2 955 545	2 698 139	2 950 902

Source: Turkish Statistical Institute. 2019c. It was compiled by the authors from the Turkish Statistical Institute website.

BRICS countries held many meetings until 2018. The 1st BRICS summit, gathered as BRIC countries, was held in Russia in 2009. At the summit in Russia, issues such as the global financial crisis in 2008, food security, reform of international financial institutions, energy security and the future of BRIC

countries have been discussed. The 2nd Summit of BRIC countries was held in 2010 in Brazil. At this summit, issues such as the state of the global economy, climate change, G20 meeting, World Bank and IMF senior management were discussed. At the 3rd BRIC summit held in China in 2011, South Africa was included in the group. At the 4th BRICS summit held in India in 2012, country leaders have discussed issues such as global management and sustainable development. 5th BRICS summit was held in South Africa in 2013.

BRICS leaders at their fourth meeting in New Delhi launched new studies and reports to mobilize infrastructure and resources and to establish a new development bank. At the sixth BRICS summit in Fortazela in 2014, leaders signed the agreement establishing the New Development Bank. In the Fortazela Declaration, the leaders stressed that in order to achieve a strong sustainable and balanced growth target, the New Development Bank will strengthen cooperation between BRICS and support multilateral, regional financial institutions' global development efforts, they will take collective steps.

The 7th Summit of BRICS countries was held in Russia in 2015, and the 8th BRICS summit was held in India in 2016. At the 9th BRICS summit held in China in 2017, international and regional issues are discussed. The 10th BRICS summit was convened with the theme "BRICS in Africa: Partnership and Inclusive Growth for Shared Prosperity in the 4th Industrial Revolution".

In the table above, export development of BRICS countries between 2008-2018 has been provided. Although there are fluctuations in the exports of countries in some years, it was generally in an increasing direction.

As seen in the table above, although imports of BRICS countries decreased in some periods, they generally followed an upward trend.

DATA SET AND ECONOMETRIC METHOD

Data

The aim of this study is to reveal the causal relationship between export diversification and economic growth in BRICS-T countries during the period of 1990-2018. The variable of economic growth was proxied by growth rate of real GDP per capita and export diversification was proxied by export diversification index and trade openners was represented by total trade as a percent of GDP. All the variables were provided from databases of IMF and World Bank.

Table 4. Some Macro Economic Indicators of 2018 Year BRICS Country Group

	Brazil	Russia	India	China	South Africa
Population	209.205.000	143.965.000	1.334.221.000	1.396.982.000	57.420.000
Area (km)	8.547.400	17.075.400	3.287.263	9.561.000	1.219.090
GDP (Million USD)	2.138.918	1.563.497	2.611.012	10.492.514	385.530
Per Capita GDP (USD)	10.224	10.633	2.135	10.088	6.610
Growth Rate (%)	2,26%	2,3%	7.3%	6,56%	0.80%

Source: World Bank. It was compiled by the authors from the World Bank website.

Table 5. 2008-2018 Period Export Data of BRISCS Countries (Billion $)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Brazil	197,9	153,0	201,9	256,0	242,6	242,0	225,1	191,1	185,2	217,8	239,2
Russia	471,6	303,4	400,6	522,0	529,3	521,8	496,8	341,4	281,7	353,5	444,0
India	194,8	164,9	226,4	302,9	296,8	314,8	322,7	267,4	264,1	299,3	325,6
China	1.430,7	1.201,6	1.577,8	1.898,4	2.048,7	2.209,0	2.342,3	2.273,5	2.097,6	2.263,3	2.487,0
South Africa	80,4	61,7	91,3	108,8	99,6	95,9	93,0	80,9	76,3	88,8	94,0
BRICS countries total	2.375,5	1.884,6	2.498,0	3.088,2	3.216,9	3.383,6	3.479,9	3.154,3	2.905,0	3.222,8	3.590,3
World total	16.023	12.418	15.166	18.169	18.268	18.682	18.772	16.309	15.850	17.543	19.287
BRICS countries share %	14,8%	15,2%	16,5%	17,0%	17,6%	18,1%	18,5%	19,3%	18,3%	18,4%	18,6%

Source: World Bank. It was compiled by the authors from the World Bank website.

Table 6. 2008-2018 Period BRICS Countries Import Data (Billion$)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Brazil	182,4	133,7	191,5	237,0	233,4	250,6	239,2	178,8	143,4	157,5	188,7
Russia	291,9	191,8	248,6	323,8	335,4	341,3	307,9	193,0	191,5	238,1	249,1
India	321,0	257,2	350,2	464,5	489,7	465,4	462,9	392,9	361,2	448,4	510,7
China	1.132,6	1.005,9	1.396,2	1.743,5	1.818,4	1.950,0	1.959,2	1.679,6	1.587,9	1843,8	2.135,9
South Africa	89,1	64,5	83	102,7	104,1	103,5	99,9	85,7	75,0	83,0	93,1
BRICS countries total	2.017,0	1.653,1	2.269,6	2.871,4	2.981,1	3.110,7	3.069,1	2.530,0	2359,1	2.770,9	3.177,4
World total	16.505	12.715	15.450	18.434	18.595	18.895	19.008	16.655	16.187	17.932	19.754
BRICS countries share %	12,2%	13,0%	14,7%	15,6%	16,0%	16,5%	16,1%	15,2%	14,6%	15,5%	16,1%

Source: World Bank. It was compiled by the authors from the World Bank website.

Econometric Method

The causality interaction among economic growth, export diversification, and trade openness was analyzed through Determining the cause-effect relationship between variables in economics has become quite common in Dumitrescu and Hurlin (2012) causality test. Dumitrescu and Hurlin (2012) causality test considers the heterogeneity and yields reliable results under the presence of cross-sectional dependence. The test can be used, if the time dimension of the dataset is larger than the cross section dimension of the dataset and also gives effective results in unbalanced panel datasets. (Dumitrescu and Hurlin, 2012).

The temporary relationship between Y and X has been tested by the following model (Dumitrescu and Hurlin, 2012):

$$Y_{i,t} = \alpha_i + \sum_{k=1}^{K} \gamma_i^k Y_{i,t-k} + \sum_{k=1}^{K} \beta_i^k X_{i,t-k} + \varepsilon_{i,t}$$

K indicates the optimum lag length and the null hypothesis of the test is that there is no causal relationship between X and Y in all cross-sectional units, the alternative hypothesis is that there is causality between X and Y in some cross-sectional units.

EMPRICAL ANALYSIS

Cross Sectional Dependency Tests

Cross-sectional dependency test results for the variables are given in Table 7. It is seen that p value of the 4 cross-sectional dependency tests for each variable calculated according to the table is less than 0.05 significance level. Accordingly, the H_0 hypothesis is rejected. Thus, there is cross-sectional dependence for all the variables. Therefore, the stationarity of the variables should be examined by second generation unit root tests.

Table 7. Cross Sectional Dependency Test

GDP PER.	**stat**	**p-value**
Breusch-Pagan LM	56.56623	0.00
PeseranScaled LM	6.493475	0.00
Bias-CorrectedScaled LM	6.386332	0.00
Peseran CD	5.521866	0.00
TRADE OP	**stat**	**p-value**
Breusch-Pagan LM	142.1287	0.00
PeseranScaled LM	22.11497	0.00
Bias-CorrectedScaled LM	22.00782	0.00
Peseran CD	8.390278	0.00
EXPORT DIV.	**stat**	**p-value**
Breusch-Pagan LM	181.1302	0.00
PeseranScaled LM	29.23563	0.00
Bias-CorrectedScaled LM	29.12849	0.00
Peseran CD	-2.65825	0.00

Peseran (2007) CIPS Unit Root Test

The stationarity of the series was examined with Pesaran (2007) CIPS unit root test and test results are reported in Table 8. All the series were found to be stationary at level.

The calculated CIPS values are compared with the CIPS critical values of %1=-3.10, %5=-2.86 and %10=-2.73

Table 8. Peseran CIPS Unit Root Test

	CIPS-stat
GDPper.	-3.22
TRADE op.	-3.93
EXPORT div.	-3.90

Dumitrescu and Hurlin (2012) Panel Causality Test Results

The causality interaction among economic growth, export diversification, and trade openness was analyzed through Dumitrescu and Hurlin (2012) causality test and the results were reported in Table 9. As a result of the analysis, it was concluded that there is one-way causality from trade openness to economic growth, one-way causality from economic growth to export diversification and two-way causality between trade openness and export diversification.

Table 9. Panel Causality Test Results

Causality Aspect	**Stat**	**p-value**
Gdpper. Cap. growth→trade op.	0.808	0.4297
Trade op.→gdppercapgrowth	**2.8249**	**0.0228**
Gdpper →ex.Diversifiction	**3.1182**	**0.0266**
Ex.diversifiction→gdpper.	1.5973	0.1293
Trade op. →ex.diversifiction	**4.700**	**0.0127**
Ex.diversifiction→trade op.	**2.5812**	**0.0558**

CONCLUSION

The aim of this study is to test the existence of causality relationship between export diversification and economic growth in the period between 1990 and 2018. As a result of the Panel Causality analysis applied for BRICS country group and Turkey; It was concluded that there is a one-way causality relationship from trade openness variable to per capita growth rate, one-way causality relationship from per capita growth variable to export diversification variable and one-way causality relationship from the trade openness variable to the export diversification variable. When estimation results are evaluated; as the

trade openness of countries increases, GDPs will increase in parallel if they are well integrated in trade with the world, this will contribute positively to the economic growth of countries. Export diversification will increase as foreign trade increases.

When the study is compared with the literature in the applied tests and analysis results; Taş (2011), in his study for Turkey, did not find a causality relationship from export diversification to economic growth. In his study, he found a causality relationship from economic growth to exports and from exports to export diversification. Michealy (1958), in his study for 44 countries, determined that the per capita national income of the countries with more diversified export baskets is better than the others. Macbean and Nguyen (1980), in their work, they concluded that countries with large export baskets had lower instability in export revenues than countries with narrow export baskets. Similarly, Ukpolo (1994) found that export diversification is an advantage, Wilhems (1967) found that export diversification will affect economic growth positively. Chenaf and Rougier (2008), found positive results for MENA countries, Lotfi and Karim (2017), for Morocco, Çeviker and colleagues (2010) for Turkey and Syria.

Information technology and R&D products need to be further improved in the export of the BRICS country group and Turkey, which has a voice in foreign trade and leads foreign trade in the world. As Turkey and BRIC country group expand their range of export baskets, they will make positive contributions to their growth. If the export baskets are diversified, the foreign currency income of the countries will be stable and will contribute positively to economic growth. Turkey and BRICS countries need to diversify their export markets as well as diversification of their export products. The rising economies' diversified export baskets and their export to more markets will further increase them.

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Chapter 22
The Changing Nature and Use of the Concept NEET in Contemporary Society:
Normalising the NEET Age Cohort

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ABSTRACT

Internationally, significant variation exists between the use and application of the term 'NEET' (not in education, employment, or training) to define levels of economic and social exclusion among groups of young people. It depends on the situation, and/or the context in which the term is applied. The term draw attention to unacceptably high levels of youth unemployment and economic inactivity, as well as the scarring consequences this may have on young people's lives. This chapter aims to provide a review of the shifting and changing age cohort included within the NEET category since its inception in the 1990s. The study utilises an entity-related diagram to demonstrate the international variation that now exists. Recommendations are made in order to maximise the deployment of a standardised definition of NEET, in order to achieve some commonality of understanding about how we measure and define 'NEEThood', and crucially, in developing and applying policy responses to address their needs.

INTRODUCTION

The issue of the part of the population categorised as not in education, employment or training (NEET) is a cause of concern for South Africa (and international) because the population continues to grow amongst the youth, and there are many NEET people still seeking opportunities. Most legislation focuses on those who are NEET and within the age range classified as youth. The reason is mainly to afford young people with work and developmental opportunities. This makes it more difficult for those that are seeking opportunities to become economically active but have outgrown the age group categorised as youth.

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A large number of interventions focused on fighting unemployment tend to favour those who fall within the youth cohort and have skills, work and entrepreneurial opportunities. As a result, most of the opportunities are targeting the youth population between the ages of 18 and 34 years. For instance, recent interventions, such as the Youth Employment Services (YES) launched by President Ramaphosa, also focus on this group. Another recent intervention, the Tshepo One Million operating from the Gauteng Premier's office, also gives attention specifically to those categorised as youth. In 2014, the Gauteng Premier, Mr David Makhura, launched the Tshepo 500 000 programme for youth in the province (Gauteng Provincial Government, 2014). The Tshepo 500 000 programme seeks to provide training, upskilling and job placement of young people, particularly those in disadvantaged communities in the province, for a period of five years (Gauteng Provincial Government, 2014). In May 2017, Mr David Makhura doubled the target of the Tshepo 500 000 programme to the Tshepo One Million programme (SA News, 2017). The shift to Tshepo One Million came as a result of the private sector committing to work with the provincial government to assist in creating opportunities for youth in the Gauteng province (SA News, 2017). These are some of the government interventions that focus specifically on young people.

In the case of South Africa, the government is working hard towards economic transformation so that more black people can benefit and become active participants. However, the government should invest more in educating and upskilling people who are NEET from a disadvantaged background and underprivileged communities. Without skilled and educated people, the goal to reduce the high number of people who are NEET will remain a rhetoric.

In her work published in 2015, Sue Maguire questions whether the term 'NEET' does still have meaning (Maguire, 2015b). The term has been used loosely by scholars in some instances. However, NEET remains relevant, mainly because there continues to be a looming population with no work, and who are not studying or taking part in any economic activities.

The question that should be asked is *what about the population that is NEET and older than the youth cohort?* Given the extension of the NEET to age 24 (it was initially used to represent those between 16 and 17 years in the United Kingdom (UK)), which is attributable to extended 'youth' transitions, can we distinguish (or should we) between youth unemployment/economic inactivity any longer, meaning the NEET group, and adult unemployment/economic inactivity?

This concern arises because of the population who are NEET and who are past the youth age range. The issue of work opportunities, self-help opportunities and enterprise opportunities being channelled to people who are within the youth age cohort is creating additional frustrations for opportunity seekers who are no longer in the young age range. To avoid a reservoir of adults who are NEET, South Africa should have interventions in place for the population that remains NEET and is seeking opportunities after the age of being youth. The challenges that continue to face South Africa after 26 years (1994-2020) of democracy are categorised by poverty and unemployment. The staggeringly high rate of poverty and unemployment has made South Africa an unequal society (National Planning Commission, 2011).

OVERVIEW OF THE CHAPTER

A large number of published studies have highlighted the variability of the meaning of the term 'NEET' (Gaspani, 2018; Eurofound, 2016; Beck, 2015), but there is little evidence of published studies that have attempted to standardise the concept of NEET. The absence of international standardisation to define the term 'NEET' creates challenges in terms of having a universal definition and characteristics of the

NEET (International Labour Organisation (ILO), 2015). For instance, the youth age category varies from one country to another. Most states rely heavily on their national statistics department's age categories definition. As a result, a challenge exists to make a correct comparison between various countries in terms of their NEET population and NEET rates (ILO, 2015). Furthermore, the age cohort of the NEET population creates challenges for readers to understand who is included in the NEET population because of the different age ranges found in the literature.

A large number of scholars around the world and UK policy documents make use of the word 'NEET' (Maguire, 2015a; Kraak, 2013; Lawy, Quinn & Diment, 2010). At the same time, other organisations like ILO make use of the term 'NEET' and 'NEETs' interchangeably in their publications (ILO 2017). On the other hand, scholars have brought terms such as '…NEET young people' close to the youth population (Beck, 2015). Serracant (2014) normalised the use of the term NEET to include young people and adults as sub-groupings of the term.

At the time of writing the chapter, the number of South Africans between the ages of 15 and 24 years who were NEET was recorded at 34.1% of this age group in the first quarter of 2020 (Statistics South Africa, 2020). When the age group was expanded from 15 to 34 years, the number of people in this category increased to 41.7% during the same period (Statistics South Africa, 2020). At this point, there is a need for strategic conversations on the age cohort of the NEET concept seeing that in South Africa, there was a higher rate of NEET people in the extended age cohort of 15 and 34 years as compared to those in the age range 15 and 24 years in the first quarter of 2020. It is for this reason that the chapter intends to contribute to the literature related to the shifting and changing age group of the NEET category by highlighting the fact that there is no international standard definition of the term 'NEET' in the same way that there is an ILO definition of 'unemployment'. There is an emphasis on addressing the NEET age group, which has posed an international challenge to scholars, and not on trying to resolve the entire heterogeneity surrounding the term 'NEET'.

MAIN FOCUS OF THE CHAPTER

NEET Concept From International Context

It has been more than 30 years since the Social Security Act removed young people under the age of 18 years from the unemployment register, and they disappeared. A seminal study that was carried out in South Glamorgan (Istance, Rees & Williamson, 1994 cited in Eurofound, 2016) and that focused on young people between the ages of 16 and 17 who were not covered in the labour force survey, used the term 'StatusZer0'. The studies organised by Reiter and Schlimbach (2015) and Eurofound (2016) in the UK, reported that 'StatusZer0' was not a proper name to categorise a group of inactive population. Reiter and Schlimbach (2015) state that the concept of NEET is the successor of what was then called 'StatusZer0' in the UK. Whereas, Istance et al. (1994), cited in Eurofound (2016), state that later the researchers felt it was important to make use of the term 'NEET' as a successor of the word 'StatusZer0' because of the negative impact it may be perceived to have. The cause of the change from 'StatusZer0' to 'NEET' was influenced by changes that took place in legislation and the delineation of unemployment in the UK during the late 1980s (Reiter & Schlimbach, 2015).

The term NEET since its inception in UK policy documents has been embraced by many policymakers and scholars throughout the world but has equally faced criticism. Most organisations and countries

have used and relied on the term in their policy documents when addressing various socio-economic issues affecting young people. On the other hand, other scholars on the NEET domain dispute about the variability of meaning surrounding the NEET term. The NEET concept has managed to clearly capture and provide a better understanding of the vulnerabilities faced by young people in the labour force and terms of their social inclusion (Maguire and Mckay, 2016).

The lack of an international definition of the term 'NEET' remains a challenge such that there is no consistency in terms of the definition and the age cohort of the NEET (ILO, 2015). The United Nations (UN) categorises youth as people between 15 and 24 years old (Anderson, Chen & Schroeder, 2013) but in the UK group of nations, the youth population is defined as those between the ages of 16 and 24 years. At the same time, in South Africa, this youth population is defined as those between the ages of 15 and 34 years. For that reason, 34 is quite old in comparison to the UK definition, which is 16 to 24. However, recent publications have extended the range of the NEET. Because of the growing statistics of unemployed young people, the age range for the NEET has been stretched to cater to a wider youth group.

South African Context of the NEET

In South Africa, a large number of publications on the NEET focused on other components with fewer publications that attempted to normalise the challenge related to the heterogeneity of the term. Nico Cloete familiarised the NEET concept and the NEETs in 2009 and sparked a discussion for South Africans to have conversations about the status of the NEETs – with the publication that focused on responding to the educational needs of post-school youth (Cloete, 2009). In the same vein, Holte, Swart and Hiimamo (2018) point out that the term 'NEET' became popular following the article by Nico Cloete on post-school youth in South Africa. Therefore, several publications looked at the educational domain on the NEETs. For example, Akinyemi and Mushunje (2017), in their study carried out in the Eastern Cape province of South Africa, found that 36 per cent of the young people who are NEET a cited lack of academic qualifications as the reasons for them being unemployed. While, Kotze and Gordon (2019), in the report prepared for the Gauteng Premier's office, found that most young people in Gauteng have an interest in attaining post-school educational qualifications – but they struggle to access higher education (Kotze & Gordon, 2019).

Other publication on the NEETs addressed how the government has failed to handle the NEET challenge. For instance, in 2013, Andre Kraak published a book on the NEETs focusing primarily on how government missed the opportunity to resolve the NEETs challenge and the cause leading to the problem (Kraak, 2013). Other scholars have made suggestions regarding easing the cornering rise of the NEET population. For instance, Matli and Ngoepe (2019) focused on developing the capacity of the NEET so that they can also become active participants in the economy. Whereas, in 2016, Azinga Tele, in her study, focused on factors that affect employability of a group of young people who are NEET – focusing on one rural community in the Eastern Cape province of South Africa (Tele, 2016). Other researchers have also conducted comparative studies that look at how South Africa compares to other international countries based on statistical data. For example, Holte, Swart and Hiimamo (2018), in their comparative study, looked at how the term NEET has been used, the statistics of NEETs and opportunities of young people in a comparison between South Africa and two countries from the UK, namely Finland and Norway. Therefore, there is little evidence that studies have been carried out in South Africa to try to address the shifting and changing age cohort of the NEET category.

Challenges Experienced by People who are NEET

A large number of people who are NEET experience high levels of frustration, low self-esteem, depression, and anxiety, and are hopeless in themselves (Western Cape Government, 2013; Thompson, 2011). The main contributing factors are little progress in their lives, lack of a second chance to redeem themselves, and fewer opportunities available to them. A large number of people who are NEET feel that they are trapped in the web of not being able to participate in economic activities (Western Cape Government, 2013). There continues to be a high rate of youth anxiety that is related to socio-economic changes taking place (Turnbull & Spence, 2011). This risk facing young people include, but are not limited to, youth being victims of crime and health issues. In her study centred on young people in prison, Kennedy (2013) found that the youth experience a large number of challenges that relate to their complex needs which often lead to mental issues (Kennedy, 2013).

Challenges in the integration of individuals who previously dropped out of education and back into the education system relate to the constitutional right to basic education in South Africa. As part of the implication, these hopeless young people end up being active participants in service delivery protests in their communities (Western Cape Government, 2013). Although there are existing intervention programmes that primarily focus on the youth, education and employment, some of the interventions seem to be far apart from the lived realities of these unemployed young people (Kraak, 2013). As a result, some of these interventions do not have a thorough understanding of the life situations of these young people who are NEET that they supposedly assist. It is essential to have intervention programmes that seek to aid young people during the transition after leaving formal education (Maguire & Mckay, 2016) when most young people become frustrated. This is as a result of challenges they face in finding employment, training, and being reintegrated into education after dropping out or even furthering their studies.

Socioeconomic Situations

The challenge related to measuring the participation of young people in the labour market is an international one because of the complexity of how education and the labour market interact with each other (House of Lords, 2014). Changes taking place in the economy deteriorate the position of less educated individuals and resulting in their vulnerabilities increasing (Benda, Koster & Van der Veen, 2019). The new jobs in the market require the education system to better prepare students for the world of work (Lange and Maguire, 1998). In addition, the issue of quality education also seems to be an international challenge (Kempen & Steyn, 2015).

Over the years, new jobs continue to be created in the workplace, but there are jobs fewer jobs than the number of people seeking to enter the workplace (Kraak, 2013). The decrease of new entrants into the labour markets suggests that there are fewer job openings in the market; this is a concern for young workers (Choudhry, Marelli & Signorelli, 2012). Many young people who are seeking employment therefore have to compete for the few available job openings.

In South Africa, the Western Cape Government plans to provide access to various job enhancement and skills development activities (Western Cape Government, 2013). These activities will be provided through state agencies, the private sector and civil society organisations (Western Cape Government, 2013). The activities will accommodate young people who are NEET and include those who have dropped out of schools, are unemployed and are graduates (Western Cape Government, 2013). In Gauteng, the Tshepo One Million Project is evidence that the provincial government has partnered with the private

sector to develop the capacity of young people (SA News, 2017). The government plays a critical role in developing the capacity of its citizens.

Job creation is not the fundamental business of government, but of the private sector (Western Cape Government, 2013). However, the private sector absorbs people who are skilled, educated, and qualified. Government has the responsibility to provide resources for people to acquire training and education. Therefore, focusing on the life situation and experiences of people who are NEET is important. It will provide an understanding of the challenges these people come across and whether they are indeed seeking work, education and other developmental opportunities.

A lot has been published across the world on what an education system should provide to produce persons who are better prepared for the future of work (Blank, Balatti & Falk, 2010). As a result, the process of young people transitioning from the education system to work has been at the centre of most youth policies and studies (Cuervo & Wyn, 2014). There is no doubt that in order to create quality employment opportunities for NEET people, there is a need to have drastic policies that come with a change in the productive system (Pique, Vea & Strecker, 2016), especially because the economic growth is not leading to enough quality job creation (ILO, 2017).

Extensions of the NEET Concept From the Youth age Cohort

There are concerns regarding the age cohort of the NEETs, as over the years, the age cohort has been extended from 16 to 17 years to 15 to 24. It is for that reason that proliferation of publication on the NEET makes use of the ages between 15/16 and 24 years. However, because the term has attracted scholars from further afield from the UK, the word is likely to be 'borrowed' to suit other states internationally. Furthermore, there is a growing population carrying the label NEET as they bypass the age of 24 years. Therefore, it makes little sense why NEET people over the age of 24 years are not well captured.

The United Nations (UN) categorise youth as people between 15 and 24 years (Anderson, Chen & Schroeder, 2013). The European Union (EU) – the youth age category that will be representative for statistical purposes is between 15 and 29 years (EU Youth Report 2015; 2016) while the African Union Charter (AUC) categorises youth as people between the ages of 15 and 35 years (African Union Commission, 2015). As a result, there is a mismatch of the youth population age cohort internationally. It is the view of the researchers that this may be the reason why the term NEET is eminently drawn to present the youth between 16 and 24 years in the UK context.

The term NEET is attached to the youth population, and it is for that reason that most organisation and scholars have been inconsistent about the age cohort for the NEETs. Therefore, it is a necessity to normalise the term with an effort to reach some sort of standardised use and to cater for a full age group as being NEET and that cannot end at 24 years. Often scholars have to outline the age cohort in their reports or studies – primarily because of the lack of standardisation of the age range.

Long-term NEET

The proliferation of studies, policies, interventions and legislation on the NEET, education, social exclusion and unemployment (generally) in South Africa and international tends to focus on the youth – forgetting those in adulthood who also face similar challenges. There is a need for policies that focus on people who progressively carry the label of NEET and who are not covered by the age group of 16 to

24 years. It is critical to start igniting such conversations as it is not their choice to remain NEET (and over 24 years) but because of limited opportunities in most cases.

In the South African context, it is worth noting that not everyone has had the same opportunities of education and training before the ages of 24 years because of current structures resulting from the past apartheid system. Although South Africa saw the dawn of democracy in 1994, several social structures still exist that stop some people from detaching from being NEET actively. The past system created racial and social structures in the country. As a result, the largest portion of NEET people in South Africa remains black Africans. Although there is measurable progress under the present democratic government, people in rural areas, high-density communities like informal settlements and underserviced townships remain disadvantaged. Townships may be defined as previously underdeveloped living areas in urban environments (Matli & Jordaan, 2016).

The use of the term NEETs for the age cohort 15 to 24 years may suggest that there are no crises related to not in employment, education or training for who are over the ages of 24 years and within the working-age group, according to Statistics SA. Furthermore, this may suggest that South African (and international) policymakers and government states have no interest in people who are over the age of 24 years and who are not in education or training, but they only focus on those who do not have employment. Organisations often present statistical reports on the NEET population between the ages of 15 and 24 years, unemployment of youth who are between the ages of 15 and 34 years, and unemployment statistics for those between the ages of 15 and 64 years. This chapter argues that there is a necessity to have statistics of those who are NEET and older than 15 to 24 age cohort. The authors of this chapter are of the opinion that those who are above the age of 24 years and are NEET are not well captured. It is essential to understand that not everyone who is above 24 years is actively seeking for work only, but there are possibilities that others may be in search of education and training opportunities.

Both local and international research literature posits that the term NEET is traditionally known to refer to the population between the ages of 15/16 and 24 years. However, because of social realities experienced in recent years, the term has been used to embrace the people above the ages of 24 years. For example, in their study, Matli and Ngoepe (2019) collected data from participants who were NEET, with the oldest participant being above 33 years old in South Africa, while Gaspani (2018) used interviews to collect data from 36 'young-adults NEET' between the ages of 28 and 34 in the city of Milan, Italy. This is evidence that the term NEET has been used to embrace a broader age cohort population in South Africa and further afield. Therefore, it is evident that there is a growing population of people are NEET and who are over the ages of 24 years.

After providing a literature review on the concept NEET and its shifting and changing variations that now exist, an approach based on the latter is applied to understand these variations and the shift in the age cohort for the NEET category. Literature reviews were therefore conducted with the intention to understand the origin and use by scholars of the term NEET and its age cohort evolution. In addition, the literature on the concept of NEET assisted in showing the purpose which the term NEETs serves.

SOLUTIONS AND RECOMMENDATIONS

The study focuses only on the origin and traces the evolution of the NEETs age cohort that has created a concern for most scholars and policy makers in the area of the NEET. The study makes use of evolutions to attempt to address the NEETs age cohort which has come to represent an international challenge.

Definition of the NEET age Cohort

Table 1 illustrates that the age range of people categorised as the NEET vary and is not consistent although a large number of sources make use of the age range from 16 to 24. The different age ranges from table 1 are in the age category of youth population, this is because the term is mostly aligned with challenges faced by young people. The table below also indicates that organisations such as Eurofound have been inconsistent in their use of the age range for the NEET.

Table 1. Versions of NEET age range

Age range	Source
16 – 24	Beck, 2015; Russell, 2016; Thornham & Cruz, 2017
16 – 25	Pique, Vea & Strecker, 2016
18 – 24	Van Parys & Struyven, 2013
16 – 17	Eurofound, 2016
16 – 18	Eurofound, 2016
15 – 24	Eurofound, 2016
15 – 29	Eurofound, 2016; Maguire & Mckay, 2016

Scholars and organisations around the world define the age range of the NEET in various way as a result of no standardisation of the NEET age range and the term itself. Some definitions from different scholars and organisations are as follows:

- The affected group has grown with the raising of the participation age in education and the extension of the NEET category to include not only 16 to 18-year-olds, but also those up to the age of 24 (Maguire, 2013, cited in Beck, 2015).
- In Spain, the country recorded 17.0% of young people who were NEET and between the ages of 16 and 25 years (Pique, Vea & Strecker, 2016).
- In the UK, the term 'off-register NEET' was used in 1997 to refer to about 500 000 young people between the ages of 18 and 24 years who were not in employment, education or training and did not apply for the jobseeker allowance or even other benefits related to unemployment (Bentley & Gurumurthy, 1999, Furlong, 2006, cited in Van Parys & Struyven, 2013).
- In the fourth quarter of 2014, the UK recorded 963 000 of young people between the ages of 16 and 24 who were not in education, employment or training (Russell, 2016).
- The category of NEET refers to people between the ages of 16 and 24 years who are not in employment, education or training (Thornham and Cruz, 2017).

Measurement of People who are NEET and Unemployment

There are norms for calculating and determining unemployment and the rate of NEETs. This study suggests that the same equations used to determine the age cohort of the NEETs to be between 15 and 24 years (UN youth definition) be used to determine youth and adults who are NEET using their respective

state indicators. For example, in the South African context, the age range for youths that are NEET is 15 to 34 years and for adults who are NEET it is 35 to 64 years.

NEET is a concept related to the various definitions of youth unemployment. However, youth unemployment remains more complex as compared to youth with no jobs (House of Lords, 2014). House of Lords (2014) further gives a distinctive differentiation between NEET and unemployed by stating that to be considered unemployed, the person must be actively seeking employment, and to be considered NEET, the person may be seeking employment or may not be actively seeking for employment opportunities. ILO has cautioned how other organisations measure the rate of NEET and advised that people who are unemployed but are students should be excluded from the calculation (ILO, 2013, cited in Elder, 2015). The study undertaken also cautions about the measurement of the NEET rate because it takes into consideration people who are actively seeking for work, education or training opportunities (to detach from NEET) whereas they might be actively participating in the undeclared work or other activities in the informal economy to survive. Therefore, this remains an area to be explored in future research as the purpose of the present paper is to suggest ways to deal with the age cohort around the term NEET.

Below are equations used as determinants for the NEET population within a particular age cohort and youth unemployment rate internationally.

- The NEET rate measures the share of youth who are NEET among the whole youth population (Eurofound, 2016).

Rate of people who are NEET = number of young people NEET / total population of young people.

- The NEET rate measures the percentage of a particular age cohort and sex population who are NEET (Elder, 2015).

People who are NEET rate = unemployed (non-students) + inactive (non-students) / youth population

- Youth unemployment rate measures the share of the youth who are unemployed among the youth population who are economically active (Eurofound, 2016). The below measurement rate makes use of the population between the ages of 15 and 24 years.

Youth unemployment rate = number of population aged 15 to 24 years who are unemployed / the total population aged 15 to 24 who are participating actively in the labour force (House of Lords, 2014).

The Evolutions

First evolution 16 – 17/ below 18 age group

The term NEET emerged because the population under the age of 18 years was removed from the unemployment statistics in the UK (Thompson, 2007, cited in Maguire, 2015a). The term NEET has become familiar in the public domain since the 1990s, emerging from UK policy documents that addressed the integration of the population group aged 16 to 18 years that had dropped out of the education system but were not yet accounted for in the labour force (Eurofound, 2016).

Second evolution 15 – 24 age group

In the European policy documents, the use of the term NEET was later extended from the age group 16 to 17/16 to 18 to include a larger age group of young people aged 15 to 24 (Simmons, Thompson & Russell, 2014, cited in Beck, 2015).

Third evolution 15 – 29 age group

The term NEET was later extended from 15 to 24 years to 15 to 29 years (Eurofound, 2016).

Time for the fourth evolution?

The term 'NEET' has been used to accommodate the youth category population since its inception. However, there are young people face some challenged the population after the youth age category also face. With the fourth proposed evolution, the use of the term NEET is broken down into three sub-type entities heavily influenced by age group.

The study proposes three sub-types of entities from the people who are NEET's super-type entity. In an attempt to resolve a portion of the social problem related to the NEET, the study focuses only on the NEET age cohort, since it is a cause for concern for many scholars and policy makers.

Reasons for the Fourth Evolution

The study questions whether it is not time for the fourth evolution of people who are NEET age cohort. The South African statistics age grouping is used to create three sub-type entities from the people who are NEET.

The NEETs

The NEETs (younger than 15 years) are not included in the youth category and are not in education, training or even employment. The age group, according to Statistics SA, should be engaging in basic education schooling. The destination of this population is unidentified as there is no evidence of their statistics available, and this should raise serious concerns. The assumption is that they have dropped out of their studies, and afterwards their whereabouts are unknown. By law, 15-year-old children must be in secondary/high school, and at the age of 18 they should be exiting the basic education system (Statistics South Africa, 2017b).

People who are NEET

It is therefore important to identify a way of borrowing the term 'NEET', as there are people beyond the youth age category who require assistance to be economically active and contribute to the state's economic growth. People beyond the youth category also need intervention programmes that seek to integrate or re-integrate them into employment, training opportunities, empowerment opportunities and entrepreneurial support, among others.

[Section 29 of the constitution of South Africa states that]:

Everyone has the right to a basic education, including adult basic education

The South African constitution clearly states that everyone who is interested in obtaining a basic education must be given the opportunity, regardless of age or gender. Adults who are NEET must therefore be provided with the necessary support to complete their basic education. There are people who require assistance to be integrated back into the education system so that they can complete their studies. This includes intervention programmes such as studying through adult learning centres. Therefore, people who are NEET and who, for various reasons, did not complete their basic education need the opportunity to complete their studies, regardless of age. ABET school centres provide adults with another opportunity to obtain a basic education. Therefore, there is a need for government to strengthen the integration process of people who are NEET and have an interest in completing their basic education.

Proposed Framing for the NEET age Cohort

This review discussed the challenge regarding the definition of the NEET, its age range and attributes that are similar and those that are dissimilar. This study adopted the enhanced entity-relationship diagram to represent a better way that NEET may be categorised in terms of age. The study framing is depicted in figure 1.

A super-type entity can be described as one which stores attributes that are common to one or more sub-type entities (Whitten, 2009). Relating the definition of the study, people who are NEET is the super-type entity, as it consists of one or more sub-type entities. A sub-type is defined as an entity that may inherit common attributes from its entity super-type. In addition, the sub-type entities must have attributes that are unique from the other subtype entities or a direct relationship with another entity (Whitten, 2009). In this case, the three sub-type entities identified are adults who are NEET, youth who are NEET and the NEETs. This is because there are common attributes that 'The NEETs' share with other sub-types such as 'adults who are NEET' and 'youth who are NEET'. However, in addition, these sub-types have unique attributes (needs and intervention programmes) from other sub-type entities.

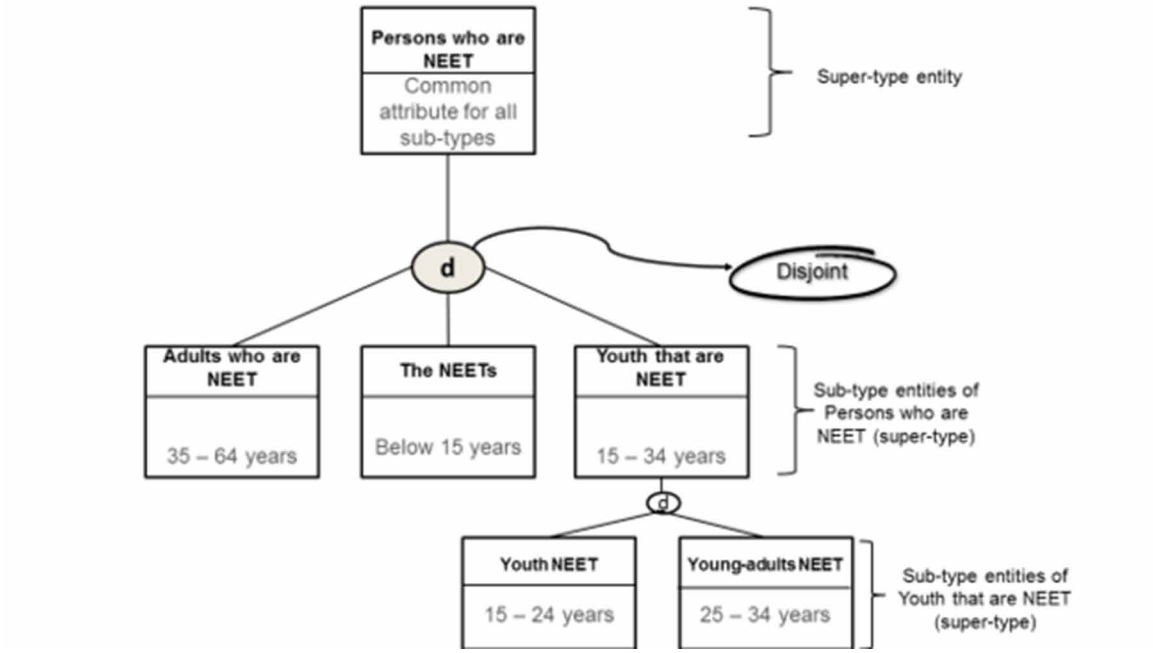
Super-Type Entity

- People who are NEET

Similar attributes identified for all the sub-types were as follows. These three subtypes are human beings, they require intervention programmes to assist them in their current status and they have not been in employment, education or training for some time. Given the heterogeneity of the people who are NEET, it is important to remember that this study seeks to address only the age concern.

Disjoint: A person who is NEET can belong to one of the three subtype entities and not more than one of the subtypes at the same time.

Figure 1. Suggested normalised of the NEET age cohorts



Sub-Type Entities

- Sub-type entity 1: Adults who are NEET

The working age population consists of individuals between the ages of 15 and 64 years old (Statistics SA, 2016). In the South African context, the age range of people who are NEET is between 15 and 64 years. It is worth noting that this population includes youth who are NEET (15 – 34 years). Policy makers and scholars separate the youth age group from the overall statistics to create youth statistics. For instance, the South African unemployment rate will include 15 to 64-year-olds in the overall presentation, then the age group15 to 34 for the youth unemployment measurement.

Therefore, the authors of this chapter are of the view that it is important to cater for adults who are NEET and within the working age group, but to exclude those in the youth age range. Thus, adults who are NEET are those between the ages of 35 and 64 years.

- Sub-type entity 2: Youth that are NEET

The age range of the population of the young people varies from one organisation to another. Table 2 illustrates how different organisations measure the age range of the youth population. Therefore, in such a case, the researcher recommends that the age range definition of the individual country's department of statistics be used. In this study, the Statistics SA youth age category is more relevant. However, the use of varying state definitions of the youth age cohort makes it even more difficult for scholars to perform statistical comparisons between the NEET rates of the various countries.

The challenge of the youth age group becomes a more complex issue. Table 2 illustrates that in a country like South Africa, organisations do not make use of the same age range for the youth population. For example, Statistics South Africa states that the youth are people aged between 15 and 34 years, whereas the Presidency in South Africa recognises the youth as those between the ages of 14 and 35 years. Therefore, in the South African context, youth who are NEET are individuals who are between the ages of 15 and 34 years old.

Table 2. Age range of young people

Age range	Organisation	Source
15 – 24 years	United Nations (UN)	(Anderson, Chen & Schroeder, 2013)
15 – 29 years	European Union (EU)	(EU Youth Report 2015, 2016)
16 – 24 years	Young Women's Trust	(Maguire & McKay, 2016)
15 – 35 years	African Union (AU)	(African Union, 2006)
14 – 35 years	South Africa (SA)	(The Presidency, 2009)
15 – 34 years	Department of Statistics SA	(Statistics South Africa, 2017a)

- Sub-type entity 3: The NEETs

Although the original age range for the NEETs was between 16 and 17/18 years, this age range was not then included in the labour force statistics for youth. The researcher proposes that the NEETs should include those who are younger than 15 years. This will mean those who have dropped out of the education system for various reasons and are not yet included in the youth age group (15-34). Some of the reasons leading to the NEETs population below 15 years not being attached to education or training include, but are not limited to, the following. The family economic status may force a child to drop out of school to earn the means to put bread on their table. Children may lose their parents prematurely because of diseases and sicknesses, such as HIV/AIDS and others. They might become child-headed households or be children who are discouraged from pursuing their studies. These are some of the reasons that contribute to the current high rate of this population not being involved in education or advancing through Technical and Vocational Educational Training (TVET) colleges.

Now we have explained and demonstrated the grouping of the term NEET into three categories. The paper further normalised the super-type youth age cohort into two sub-types. This was done in an effort to create room for comparison studies with other nations, particularly further afield nations that refer to the NEETs as those between the ages of 15 and 24 years.

Super-Type Entity

- Youth that are NEET

The entity youth that are NEET serves as a sub-type entity of the super-type entity people who are NEET, and the same entity (youth that are NEET) serves as a super-type to the sub-entities (early-stage youth that are NEET and late stage youth that are NEET).

Sub-Type Entities

- Sub-type entity 1: Youth NEET

This sub-type entity includes NEET persons between the ages of 15 and 24 years. This creates room for South Africa to have comparison statistical studies with those countries that categorise the NEETs and/or the youth population as those between the ages of 15 and 24 years.

- Sub-type entity 2: Young-adults NEET

This sub-type entity includes NEET persons between the ages of 25 and 34 years. This population forms a portion of those categorised as youth in South Africa. Therefore, it is equally important to know their whereabouts and help provide evidence that various stakeholders can use for policymaking and developing strategies targeting youth that are NEET.

Table 3 below summarises the proposed people who are NEET with their age range for each of the indicators.

Table 3. People who are NEET in a nutshell

Indicators	Age range
The NEETs	Below 15
Youth that are NEET	15 – 34 (15 – 24) & (25 – 34)
Adults who are NEET	35 - 64

FUTURE RESEARCH DIRECTIONS

Despite the insights offered by this chapter, it is worth noting that several limitations were encountered that could be addressed in future research. For example, sociology expectation theory may be applied that largely deals with the power of the vision to see what the future of the NEET concept may look like.

This chapter was guided by the South African Statistics' definition of different population age cohorts. It is recommended that a similar study be conducted but use an international stance definition from organisations such as ILO or the United Nations.

CONCLUSION

The issue of young people who are NEET is a significant challenge for South Africa; to the extent that there is a population growing out of the youth age category and remaining NEET and who are seeking opportunities. Interventions that focus on assisting people who are NEET to participate in economic activities are essential. Such responses remain critical for countries like South Africa, where youth unemployment is a staggering 38.2% (quarter 1 of 2018) to 38.6% (quarter 1 of 2017). Although the youth

unemployment rate remains higher than the national overall unemployment rate, it is essential to have interventions that accommodate adults who are NEET and yet who are opportunity seekers.

It is hoped that this chapter will ignite a strategic conversation about addressing the age cohorts of the term 'NEET', which has become an international challenge. Furthermore, it is also hoped that the chapter highlighted the importance and accurate reflection of the population who are over the ages of 24 years and continue to seek for prospects to detach from being labelled 'NEET'. The three sub-type entities that emerged from the chapter were: the NEETs, youth who are NEET and people who are NEET. This would afford policymakers the opportunity to recommend appropriate interventions for each of the three sub-type entities. This is because there are common attributes that the three subtypes of NEETs share, and there are attributes that are unique to each subtype. As a result, the chapter recommends that it is essential to take into consideration the NEET population, which is increasing and no longer in the youth age cohort. Otherwise, people who are NEET and who do not belong to the youth age cohort will remain a cause for concern for generations to come.

The NEET is a community, and there is a need to include those who grow out of the youth age cohort (15 – 24 years of age). Furthermore, the argument becomes 'what about those who are NEET and below the ages of 15 and are not incorporated into the youth labour force survey? The reality in South Africa is that the country has a staggeringly high rate of youth unemployment, which has been a recurring problem for a long time. Therefore, this population needs particular attention, as they are still seeking work and developmental opportunities. To a great extent, placing focus on those who are NEET and between the ages of 15 and 24 creates economic exclusion for those who have progressed out of these age cohorts. As a result, South Africa may end up with a portion of adults who are depressed, stressed and with no hope to be incorporated into work and developmental activities.

NOTES

This paper used the labour force age definition from the Department of Statistics South Africa as a guide for the age population categories.

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Chapter 23
Impact of Trade Liberalization on Income Inequality: Evidence From Turkey

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ABSTRACT

This study consists of trade openness in Turkey within the scope of the 1985-2018 period and examination of the cointegration and causality relationship between the Gini coefficient and per capita income levels. In this regard, per capita income, which is one of the economic welfare indicators, has been used as the control variable. ARDL boundary test models used in the analysis have been examined by forming two models in which both variables have been evaluated as dependent variables. Therefore, the short- and long-term effects of both variables on each other have been determined. The cointegration relationship tests performed within the scope of the ARDL boundary test in the first stage of the analysis showed that these variables act together in the long run. However, it has been determined that the trade openness ratio negatively affected income justice in the short and long term.

INTRODUCTION

Developing countries need to achieve higher and sustainable economic growth to close the development gap they have with developed countries. This situation has emerged the need for developing countries to acquire the sources they need during the economic growth period from developed countries. At this point, foreign trade comes up as an important alternative for providing the sources that the countries in question need. Countries try to enhance their economic performances and obtain a good way of financing

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through trade openness by means of providing access to the best technology that would help to increase competition and efficiency.

In recent years, the world has been experiencing rapid globalization due to foreign trade and foreign investments in economic activities along with witnessing an ever-increasing income inequality. It is seen that the countries that deliver a successful performance in terms of economic growth during the globalization process go through negative situations due to various problems such as increasing inequality and environmental problems, regarding the quality of economic growth. At this point, one of the subjects that have importance for people, society and governments is that countries achieve a fair and balanced growth together with sustainable economic growth. Otherwise, the increase in income inequality will cause social unrest and political instability, which will undermine the positive impacts of economic growth. In fact, the importance of reversing the increasing inequality trends in developing countries has been accepted and The United Nations included reduction the inequality in question in the system as one of the 17 sustainable development goals (Urata & Narjoko, 2017: 1).

One of the main issues discussed regarding the effects of trade openness on the economies of developed and developing countries along with the increasing globalization activities, is how trade openness affects the distribution of income. In this context, it is not possible to say that economists have reached an exact consensus about the effect of trade openness on income distribution (Dung, 2004: 2).

There are two opinions about the effect of trade openness on income distribution. According to the first opinion, foreign trade and foreign investments are secret devices of exploitation used by developed countries against developing countries. Thus, it is suggested that trade openness would cause bad economic growth known as "dual growth" that causes income inequality in developing countries (Dung, 2004: 2). The second opinion is based on the Stolper-Samuelson theorem. According to this theorem, trade openness would provide an opportunity for more rapid economic growth and a reduction in income inequality by getting comparative advantages in favour of unskilled labour (Wood, 1994).

According to the Stopler-Samuelson theorem, which derives from the Heckscher-Ohlin model, foreign trade would provide benefits to the relatively abundant factor of a country, as specialization in foreign trade would prefer sectors with abundant factors. In other words, when a developing country that has relatively abundant unskilled labour and consequently has a comparative advantage in the factor of production comes into question, trade openness increases the demand for unskilled labour and the price of this labour accordingly. Thus, this process turns the wage gap between the skilled and unskilled labour to normal and reduces the income inequality in the country. However, the Stopler-Samuelson theorem is criticised a lot due to its restrictive assumptions (Meschi & Vivarelli, 2007). In addition, it is revealed that globalization and income inequality generally appear together in developing countries, contrary to the Stopler-Samuelson theorem (Goldberg & Pavcnik, 2007: 39). According to this view, it is possible for middle income countries to be relatively unskilled labour abundant when compared to high-income trade partners and to be relatively skilled labour abundant when compared to low-income countries. Thus, one of the crucial consequents of this situation is that the demand for unskilled labour increases and the wage gap rises due to decrease in wages. By this way, it is seen that trade liberalization increases the demand for skilled labour in both developed and developing countries (Örnek & Elveren, 2010: 63). For example, Kremer & Maskin (2006) revealed that globalization did not consistently produce the expected Heckscher-Ohlin effect in reducing the income inequality in less-developed countries, according to the findings acquired as a result of applied studies (Kiyota, 2012: 656).

One of the assumptions of the Stopler-Samuelson theorem is that countries have the same technologies. However, the level of technology differs substantially in developed and developing countries. Transfer

of technology gets easy as a result of free trade. Final outcome of this process in terms of demand for both skilled and unskilled labour and relative wages in the economy is that the technology transfer that is currently used by developing countries is based on skills. Thus, transfer of technology can increase the demand for skilled labour through export and import in developing countries too. Consequently, it can be said that trade liberalization may create an outcome that is opposite to the Stopler-Samuelson theorem and trade openness may cause a high level of income inequality both in developing and developed countries (Örnek & Elveren, 2010: 63-64).

Posing a serious concern for many people, including researchers, the rise in income inequality is an important problem for developed and developing countries. In this context, the goal of this study is to examine the relationship between trade openness, which is one of the important factors affecting income inequality, and the income inequality for the Turkish economy as of the period 1985-2018. In line with this goal, firstly, the relationship between trade openness and income inequality is revealed in theory in the study. Then in the second part, the empirical studies examining the relationship between trade openness and income inequality are presented. In the third and fourth part, data set and econometric methods are introduced. Then the findings from the analysis are presented. The conclusion and evaluations take place in the final part.

LITERATURE REVIEW

One of the implementations experienced by economies during the globalization process is that countries turn towards trade openness in the process of development. The effect of trade openness on income distribution has been often discussed among economists. Krugman and Obstfeld (2004) determined that the ones having many factors of production in a country would benefit from trade, however, the ones having fewer factors of production would suffer due to international trade. Trade openness would increase income inequality if a country is capital abundant and decrease income inequality if the country is labour abundant (Asteriou et al., 2014).

When the relevant studies in the literature are examined, it is seen that Wood (1994), Bourguignon & Morrisson (1990), Edwards (1997), Calderon & Chong (2001), Dollar & Kraay (2004) and Galbraith (2007) take place among the studies suggesting that trade openness affects income distribution positively. Anderson (2005) suggested that the increasing trade openness occurred by affecting the factor price ratios, asset inequalities, spatial inequalities, gender inequalities and the amount of income redistribution. However, there are also studies having determined that trade openness increased income inequality (Davis, 1996; Dowrick & Akmal, 2001; Milanovic, 2005; Benar, 2007). The summary of the studies examining the relationship between trade openness and income distribution is presented in the table below.

When the studies analyzing the relationship between trade openness and income inequality are examined as a whole, one of the remarkable issues is that the panel data analysis was used more at the beginning while the time-series analyses were used in the later studies as the method. Another issue is that although there are conclusions about the relationship between trade openness and income inequality being positive or negative in general, there are only a few studies concluding that there is no relationship between the variables in question. However, it can be said that the variety in the findings of the studies that take place in the literature arises from the period that is being analysed, macroeconomic conditions of the countries that is being examined, and the differences in the economic methods and the variables that are being used.

Table 1. Literature Review

Author(s)	Country-Period	Method	Results
Dollar & Kraay (2001)	1975-1979 and 1995-1997/101 countries	Panel regression	It is concluded that trade openness decreased income inequality.
Dung (2004)	1997-2000/Vietnam	Cross-sectional regression	It is revealed that trade openness increased income inequality.
Değer (2006)	1975-2002/ 68 less-developed and developing countries in Sub-Saharan and Northern Africa, Asia and Middle East, Europe and Western Asia	Cross-sectional regression	It is determined that trade openness decreased income inequality by increasing the income of abundant factor in developing countries.
Dişbudak & Süslü (2007)	1963-1998/Turkey	ARDL	It is determined that trade openness and economic growth have a corrective effect on income inequality. However, it is also determined that the effect of trade openness on income inequality is highly restrictive.
Gourdon et al. (2008)	1980-2000 and 1988-1998/20 Developed, 14 African and Middle Eastern, 10 Asian and 17 Latin American countries	Panel data analysis	It is determined that trade openness is linked to the increases in inequalities in countries having highly-skilled labour and capital. It is also determined that trade openness in less developed countries where the labour receives little education increased income inequality.
Jaumotte et al. (2008)	1981-2003/51 countries	Panel data analysis	It is concluded that trade openness decreased income inequality.
Hussain et al. (2009)	1972-2005/Pakistan	EKK	It is determined that the increase in trade openness decreased income inequality.
Tian et al. (2008)	1978-2006/China	Johansen-Juselius cointegration analysis	It is determined that increasing foreign trade decreased income inequality.
Örnek & Elveren (2010)	1980-2001/Turkey	Engle-Granger cointegration analysis and Granger causality test	A strong causal relationship is detected between the increasing trade openness and deterioration in income inequality.
Georgantopous & Tsamis (2011)	1990-2009/Hungary	OLS	It is determined that trade openness affected income inequality negatively.
Khan &Bashir (2011)	1970-2009/India	Johansen cointegration analysis and Granger causality test	It is determined that although trade openness increased income inequality in the short term, it decreased it in the long term.
Faustino & Vali (2011)	1997-2007/24 OECD countries	Static and dynamic panel data analysis	It is determined that income inequality decreased as the openness increased.
Szekely & Samano (2012)	1980-2010/18 Latin American countries	Panel data analysis	It is determined that trade openness increased income inequality.
Sehar et al. (2013)	1972-2008/Pakistan	Johansen cointegration analysis	There is not a significant relation found between trade openness and income inequality.

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Table 1. Continued

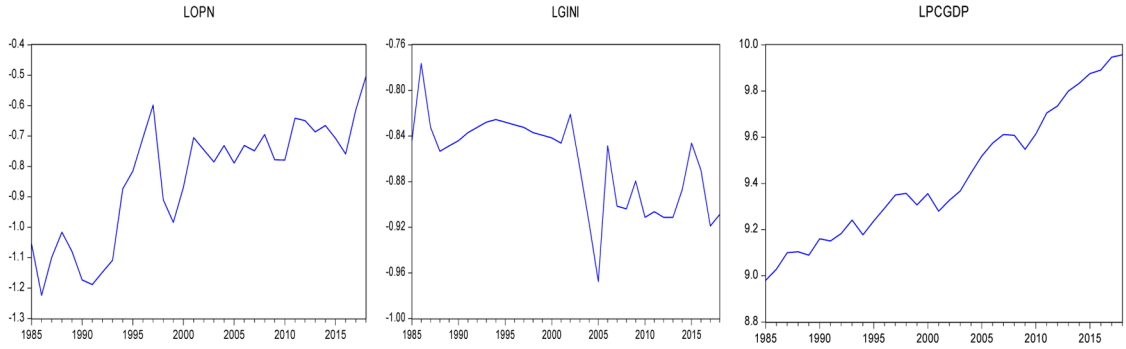
Author(s)	Country-Period	Method	Results
Gülmez & Altıntaş (2015)	1981-2011/Turkey	Johansen cointegration analysis and VECM	Trade openness and income inequality are determined to be related in the long term. Also, there is a uni-directional causal relationship detected from trade openness towards income inequality in the long and short term.
Günaydın & Çetin (2015)	1970-2006/Turkey	Johansen-Juselius and Granger causality	It is concluded that trade openness decreased income inequality in the long term and there is a uni-directional causal relationship from trade openness towards income inequality
Mahesh (2016)	1991-2013/BRIC countries	Panel GMM	Trade openness is determined to increase income inequality.
Zakaria & Fida (2016)	1973-2012/China and South Asian Association for Regional Cooperation countries	Panel data analysis	It is concluded that trade openness increased income inequality.
Agusalim & Pohan (2018)	1978-2015/Indonesia	VECM	Although it is determined that trade openness decreased income inequality in the short term, there is not a significant effect found in the long term.
Özcan & Özmen (2018)	1994-2005/7 Emerging market economies	Panel data analyses	It is determined that trade openness increased income inequality in Chile and Romania.
Mitra & Hossain Md(2018)	1979-2014/The USA	Johansen cointegration analysis and VECM	It is determined that trade openness decreased income inequality in short term while it increased it in the long term.
Topuz & Dağdemir (2020)	1987-2016/Turkey	ARDL	A non-linear U-shaped relationship is found between trade openness and income inequality.

METHODOLOGY

In case more than two variables are not stationary at the same level, the ARDL boundary test can be used developed by Pesaran et al. (2001). In this method where it is possible to estimate short and long term coefficients with the cointegration analysis, after determining the appropriate lag length, the F-statistical value of the cointegration equation created is compared with a table of critical values which is suggested by Pesaran (Abdioglu &Yamak, 2016: 84-85). The causality analysis of Toda & Yamamoto (1995) makes it possible to determine the cause-effect relationships between the variables that stationary at different levels. This test is based on the estimation by SUR (Apparently Unrelated Estimation) technique taking into account the highest stationarity degree (dmax) determined for the variables run within the VAR model and the appropriate lag length (k) determined for the VAR model. In the models estimated in this way, the Wald test can be applied based on the basis of "k" lag length and estimations can be made on causality relationships (Awokuse, 2003).

The variables used in this analysis were evaluated according to their stationary levels in their structures, and subjected to cointegration and causality analysis. Therefore, firstly the ARDL boundary test and then the Toda-Yamamato causality analysis were included in the study.

Figure 1. Series Graphics
Source: Authors' computation



DATA AND RESULTS

In this study, which was carried out for the purpose of investigating the cointegration and causality relationships between trade openness and income justice of Turkish economy, the annual data from the 1985-2018 period were used. In addition, per capita income, which is an important indicator of income justice, was used as the control variable and to deepen the study. The series of variables used in the analysis were obtained from the Worldbank and SWIID data systems. The definitions of the related series are presented in Table 2.

Table 2. Variable Definitions

Variable	**Explanation**					
LOPN	Logarithmic Trade Openness Rate					
LGINI	Logarithmic Gini Coefficient					
LPCGDP	Logarithmic real GDP per capita (LCU)					
Statistical Indicators						
Varıable	n	Mean	Standard Deviation	Minimum	Maximum	Jarque-Bera
LOPN	34	-0.8399	0.1956	-1.2237	-0.5041	2.7536 (0.2524)
LGINI		-0.8633	0.0401	-0.9676	-0.7765	1.3432 (0.5109)
LPCGDP		9.4340	0.2859	8.9806	9.9571	2.2302 (0.3279)

The first stage of the analysis is to determine whether the series of variables, which are graphically displayed in Figure 1, are stationary and/or at what level they become stationary. The results of the test performed using the Akaike Information Criterion (AIC) within the scope of ADF (Augmented Dickey-Fuller) test are presented in Table 3.

Table 3. ADF Unit Root Test

Max lag=8	ADF (None)		ADF (Intercept)		ADF (Trend and Intercept)	
Variable	**Level**	**1st Difference**	**Level**	**1st Difference**	**Level**	**1st Difference**
LOPN	-1.1650 (0.2176)	-	-1.9151 (0.3215)	-	-3.6508 (0.0410)	-
LGINI	0.6943 (0.8603)	-	-2.5996 (0.1032)	-	-4.3028 (0.0091)	-
LPCGDP	3.9008 (0.9999)	-2.8042 (0.0066)	0.0686 (0.9583)	-6.0525 (0.0000)	-2.1091 (0.5220)	-3.8430 (0.0000)

Note: The probability values of the calculated statistics are given in parentheses.

The results of the stability test showed that both series, except for the LPCGDP series, were stationary at levels in parallel with their graphical views. The LPCGDP variable provided the stagnation condition in the first difference with 1% statistical probability. The fact that the LPCGDP series was stationary in the first difference did not allow classical cointegration and causality analysis. Therefore, ARDL limit test was used to reveal the cointegration relations.

Table 4. ARDL (2,0,1,3) Forecast Results

Variable	**Coefficient**	**Standard Error**	**t-statistic**
LGINI(-1)	0.5603***	0.1325	4.2298
LGINI(-2)	-0.5504***	0.1388	-3.9664
LOPN	0.0705***	0.0188	3.7433
LPCGDP	-0.1184	0.0975	-1.2144
LPCGDP(-1)	0.3230**	0.1255	2.5751
DUMMY	0.0440***	0.0149	2.9436
DUMMY(-1)	-0.0704**	0.0313	-2.2510
DUMMY(-2)	0.1099***	0.0357	3.0774
DUMMY(-3)	-0.0792***	0.0166	-4.7800
C	-2.5601**	0.9208	-2.7804
@TREND	-0.0094***	0.0029	-3.2454
R^2	0.8476		
Adjusted R^2	0.7715		
F- statistic	11.1270 (0.0000)		
Comparison of the F-statistic (Limit-Constant) Calculated in Bound Test With Critical Values			
k	F- statistic	Critical Values	
		I0 Bound	I1 Bound
3	4.7318	4.3 (1%)	5.23 (1%)
		3.8 (2.5%)	4.68 (2.5%)

Note: *** and ** marks indicate significance at 1% and 5% levels, respectively.

Since the study focuses on the variables of trade openness and income justice, it was not considered appropriate to make a prior acceptance of the dependent variable in the ARDL boundary test. Therefore, in the analysis, both variables were transformed into dependent variables and the interaction of the variables was examined. ARDL models, which were formed in this context, were determined by reaching the model with the lowest AIC value from the results of various variations. These models are constructed under HAC (AIC, Bartlett Kernel, Newey-West Fixed Bandwidth) preference and maximum 4 lag lengths. The results of the ARDL (2,0,1,3) model, in which the Gini coefficient is considered as dependent variable, are reported below. In addition, it is considered appropriate to use a dummy variable in the related model in order to eliminate the deviations detected in the 2000-2004 period.

According to the report presented in Table 4, a 1% increase in the LOPN coefficient increases the Gini coefficient by 0.07%. In addition, if the per capita income increases, it is noteworthy that there is a positive interaction when looking at the effect of first lag period. According to this result, as the trade openness increases, the income distribution justice is deteriorated.

The fact that the F-statistic (4.7318) calculated for the relevant ARDL model is greater than both the lower and upper critical values were foreseen for 2.5% indicates that there is at least one cointegration vector among the model variables with a probability of 2.5%. This result allows to reach the long-term coefficients of the model variables that are found to act together in the long run. The long and short term results of the ARDL (2,0,1,3) model created in this context are summarized below.

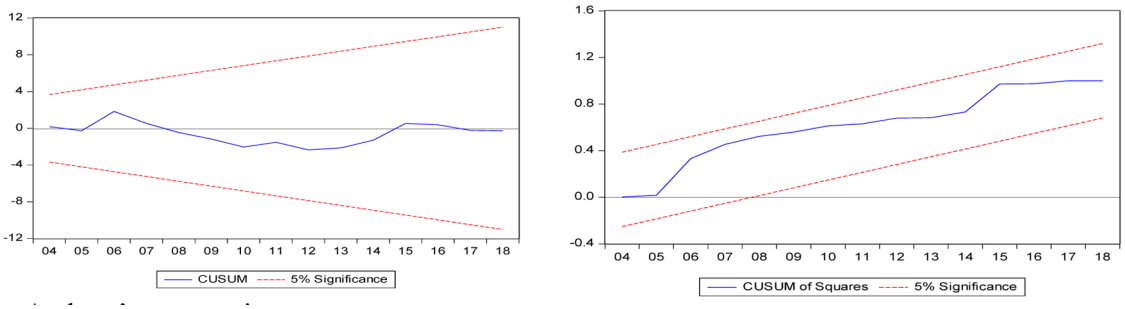
Table 5. ARDL (2,0,1,3) Cointegrating and Long Run Form

Cointegrating Form			
Variables	**Coefficient**	**Std. Error**	**t-Statistic**
D(LGINI(-1))	0.5596***	0.1502	3.7248
D(LOPN)	0.0786**	0.0351	2.2372
D(LPCGDP)	-0.1207	0.0807	-1.4960
D(DUMMY)	0.0429***	0.0136	3.1661
D(DUMMY(-1))	-0.0317*	0.0161	-1.9714
D(DUMMY(-2))	0.0799***	0.0156	5.1247
C	-2.5625***	0.4326	-5.9239
CointEq(-1)	-0.9874***	0.1664	-5.9343
Long Run Coefficients			
Variable	Coefficient	Std. Error	t-Statistic
LOPN	0.0712***	0.0168	4.2406
LPCGDP	0.2067**	0.0842	2.4548
DUMMY	0.0043	0.0134	0.3233
@TREND	-0.0095***	0.0023	-4.0905
χ^2 Wald= 24.697 (0.0000) χ^2 BG= 3.2307 (0.3574) Jarque-bera=1.5617 (0.4580)			

Note: χ2 Wald and χ2 BG represent Wald and Breusch-Godfrey sequential dependence LM test, respectively.***,** and ** marks indicate significance at 1%, 5% and 10% levels, respectively.

When the long-term coefficients of the model are analyzed, it is seen that the increases in the trade openness ratio in the long term increase the Gini coefficient. The results show that a 1% increase in trade openness will increase the Gini coefficient by 0.07%. On the other hand, it was determined that a 1% increase in per capita income level would increase the Gini coefficient by 0.21%. The results obtained from the error correction model showed that the increases in the trade openness ratio increased the Gini coefficient; in other words, it caused the deterioration of income justice. The fact that the CointEq (-1) coefficient (-0.9874) is negative and statistically significant means that 98% of short-term deviations are eliminated after one year. Besides, since the probability values of $\chi 2$ BG and Jarque-bera statistics are greater than 0.10, it was decided that there is no autocorrelation and normal distribution problem in the system. The stability of the ARDL (2,0,1,3) model was confirmed by testing with Cusum tests. The relevant results are given in Figure 2.

Figure 2. ARDL (2,0,1,3) Cusum - Cusum Square Test
Source: Authors' computation



The results of the ARDL (2,2,2) model predicted in the second stage of the analysis and in which the trade openness ratio is evaluated as the dependent variable are reported below.

According to the report presented in Table 6, a 1% increase in the Gini coefficient increases the trade openness ratio by 0.97% in two lag periods. In addition, if the per capita income increases, when looking at the effects of two lag periods, it is noteworthy that there is a negative interaction.

The F-statistic (5.2361) value calculated for the relevant ARDL model is greater than both the upper and lower critical values predicted for 2.5%, indicating that there is at least one cointegration vector among the model variables with a probability of 2.5%. This result allows to reach the long-term coefficients of the model variables that are found to act together in the long run. The long and short term results of the ARDL (2,2,2) model created in this context are summarized below.

When the long-term coefficients of the model are analyzed, it is seen that the increases in the GINI coefficient in the long term increase the trade openness ratio. The results show that a 1% increase in the GINI coefficient would increase the trade openness ratio by 2.3%. On the other hand, a 1% increase in per capita income level would decrease the trade openness ratio by 0.04%. The results of the error correction equation including the short-term results showed that the increases in the Gini coefficient caused a decrease in trade openness in a lag period. The fact that the CointEq (-1) coefficient (-0.7347) is negative and statistically significant means that 73% of short-term deviations are eliminated after one year. In other words, short-term deviations are expected to return to the long-term balance in a period of

approximately 1.5 years. Also, since the probability values of $\chi 2$ BG and F_{FF} statistics are both greater than 0.10, it was decided that there were no autocorrelation problems and neglected variables in the system. Besides, the stability of the ARDL (2,2,2) model has been tested and confirmed by the Cusum tests. The relevant results are given in Figure 3.

The final stage of the analysis consists of revealing the cause-effect relationships between the variables. The main objective at this stage is to determine whether these variables, which are determined to act together in the long term, have an effect in terms of causality for each other. Results of the Toda-Yamamoto causality test that is estimated in this context, are reported below.

According to the causality test results summarized in Table 8, no cause-effect relationship was found between the variables. As a matter of fact, it is not necessary for the cointegrated series to have a separate causal relationship. However, if there is a general assumption that there is at least one causality in the cointegrated series, it may occur if the variables are subjected to the Wald Test together. However, according to the causality results made in this context, the existence of any causal relationship could not be determined.

Therefore, in Table 8, also are discussed the Wald test results, in which the variables are evaluated collectively. Besides, the strength of the VAR model used when performing the Toda-Yamamoto test should be checked, and the model should be tested for any autocorrelation and variance problems. Therefore, in the study, Residual Serial Correlation LM Test and White test results are included.

Table 6. ARDL (2,2,2) Forecast Results

Variable	Coefficient	Standard Error	t-statistic
LOPN(-1)	0.6107***	0.1794	3.4045
LOPN(-2)	-0.3454***	0.0793	-4.3554
LGINI	0.6409	0.5625	1.1394
LGINI(-1)	0.1056	0.4624	0.2283
LGINI(-2)	0.9658**	0.4341	2.2250
LPCGDP	0.1207	0.3488	0.3460
LPCGDP(-1)	0.1373	0.3437	0.3994
LPCGDP(-2)	-0.8501***	0.2508	-3.3894
C	5.8674**	2.6642	2.2023
@TREND	0.0322***	0.0095	3.3940
R^2	0.8473		
Adjusted R^2	0.7848		
F- statistic	13.5610***		
Comparison of the F-statistic (Limit-Constant) Calculated in Bound Test With Critical Values			
k	F- statistic	Critical Values	
		I0 Bound	I1 Bound
2	5.2361	4.99 (1%)	5.85 (1%)
		4.37 (2.5%)	5.16 (2.5%)

Note: *** and ** marks indicate significance at 1% and 5% levels, respectively.

Table 7. ARDL (2,2,2) Cointegrating and Long Run Form

Cointegrating Form			
Varıables	**Coefficient**	**Std. Error**	**t-Statistic**
D(LOPN(-1))	0.3454**	0.1527	2.2620
D(LGINI)	0.6409	0.4972	1.2889
D(LGINI(-1))	-0.9658**	0.4456	-2.1676
D(LPCGDP)	0.1207	0.3334	0.3621
D(LPCGDP(-1))	0.8501**	0.3569	2.3818
C	5.8995***	1.2069	4.8880
CointEq(-1)	-0.7347***	0.1506	-4.8786
Long Run Coefficients			
Variable	Coefficient	Std. Error	t-Statistic
LGINI	2.3306*	1.2494	1.8654
LPCGDP	-0.8059**	0.3778	-2.1333
@TREND	0.0438***	0.0124	3.5236
χ^2 Wald= 21.4742 (0.0015) χ^2 BG= 1.0234 (0.5995) $F_{FF}(1,21)$= 1.0669 (0.3134) Jarque-bera=0.1425 (0.9312)			

Note: χ2 Wald, χ2 BG and F_{FF}.represent Wald test, Breusch-Godfrey sequential dependence LM test and Ramsey functional form test, respectively. ***,** and ** marks indicate significance at 1%, 5% and 10% levels, respectively.

Table 8. Toda-Yamamoto Granger Causality Test Results

Direction of Causality	Null Hypothesis (H_0)	Alternative Hypothesis χ^2	Decision
LGINI® LOPN	LGINI is not the cause of LOPN.	0.2716 (0.5717)	H_0 is accepted.
LPCGDP® LOPN	LPCGDP is not the cause of LOPN.	0.1871 (0.5637)	H_0 is accepted.
LOPN® LGINI	LOPN is not the cause of LGINI.	0.0414 (0.3938)	H_0 is accepted.
LPCGDP ® LGINI	LPCGDP is not the cause of LGINI.	-0.0618 (0.5693)	H_0 is accepted.
LOPN®LPCGDP	LOPN is not the cause of LPCGDP.	-0.0276 (0.7271)	H_0 is accepted.
LGINI ®LPCGDP	LGINI is not the cause of LPCGDP.	-0.0252 (0.9235)	H_0 is accepted.
LGINI, LPCGDP ® LOPN	LGINI and LPCGDP are not the cause of LOPN.	0.4299 (0.8066)	H_0 is accepted.
LOPN, LPCGDP ® LGINI	LOPN and LPCGDP are not the cause of LGINI.	0.8292 (0.6606)	H_0 is accepted.
LOPN, LGINI®LPCGDP	LOPN and LGINI are not the cause of LPCGDP.	0.0968 (0.9527)	H_0 is accepted.

According to the results in Table 9, it was determined no autocorrelation and varying variance problems were found in the analyses performed under lag lengths (k = 1, dmax = 1) for the VAR model used in the Toda-Yamamoto causality test and it was confirmed that the results are reliable.

Figure 3. ARDL (2,2,2) Cusum - Cusum Square Test
Source: Authors' computation

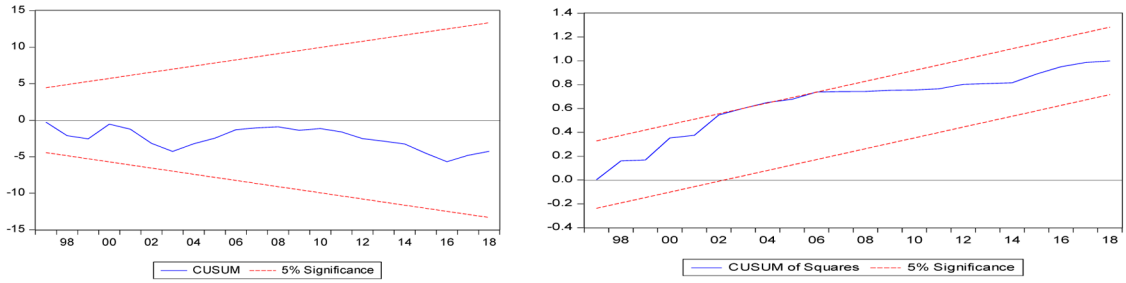


Table 9. LM Test and White Test Results

Method	Statistic Value	Probability
LM test (For Lag= 2)	6.4963	0.6894
White Test: No Cross Terms (only levels and squares)	96.2047	0.1710

CONCLUSION

This analysis made using the annual data for the 1985-2018 period in the range of Turkey's economy is on the analysis of cointegration and causality relationships between trade openness, the Gini coefficient accepted as income fairness indicator and per capita income levels. The focus of the study is to reveal the relationship between income justice and trade openness. Therefore, both variables were considered as dependent variables within the scope of separate models and the short and long term effects of the parameters on each other were investigated. ARDL boundary test models applied within the scope of these variables showed that the variables act together in the long term. However, it was determined that the ratio of trade openness negatively affected income justice in the short and long term. On the other hand, as the income justice deteriorated in the short term, it's determined that the ratio of trade openness decreased and in the long term, the trade openness increased. As a result of the tests carried out with the Toda-Yamamato causality test, it was found that there was no causal relationship between the variables singularly or collectively. The conclusion acquired from the analysis which reveals that trade openness affects income inequality negatively supports the study results of Dung (2004), Szekely & Samono (2012), Mahesh (2016) and Özcan & Özmen (2018). Moreover, this conclusion reveals that the Stopler-Samuelson theorem which suggests that trade openness would decrease income inequality is not valid in Turkey as of the period being analysed.

In the period after 1980, foreign trade volume started to increase along with free foreign trade in Turkey. The increase in foreign trade volume affected income distribution by causing an increase in the trade openness ratio. According to the results acquired from the study, it can be said that the quality of export products and hence, the demand for skilled labour have increased, with the increase in foreign trade volume. It is seen that the increase in the demand for skilled labour in export has increased income inequality by increasing wage inequality. Accordingly, governments can interfere in the redistribution of income through taxes and transfers according to the increasing level of trade openness. The relationship

between trade openness and income inequality can be examined by applying unit root and cointegration tests that allow for breaks and alternative control variables can be added to the models when examining the relationship between trade openness and income inequality in the next studies.

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Chapter 24
Determinants of Inward Bound Foreign Direct Investment in Afirca and China:
FDI Determinants in Africa and China

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ABSTRACT

The contribution of the chapter is to compare the empirical determinants of inward bound foreign direct investment in China and Africa and also find out what makes China an attractive FDI destination. To achieve this, the chapter analyses 15 empirical studies on China and 15 empirical studies on African countries. First, the chapter finds that the determinants of FDI common to both Africa and China include the market size, economic stability, resource, infrastructure, and efficiency-seeking factors. Second, the chapter establishes that the determinants of FDI specific to African countries include political stability, borrowing costs, country risks, access to land and property registration. Third, the chapter finds that the determinants of FDI that are specific to China include international visibility of regions, internal expenditure on research and development, geographic location and proximity (special economic zones and the opening of coastal cities), total cultural variations and the liberalisation of the Chinese economy.

INTRODUCTION

The debate on the determinants of foreign direct investment still rages on, and different studies on the same country, groups of countries, at differrent time periods, using different methodologies, have often produced mixed results. This implies that there is still no consensus on the factors that affect foreign direct investment in both the developed and the developing world. In this chapter we study the factors that affect foreign direct investment in China and Africa. It should be noted that China and Africa are at

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different stages of development; and also that in the last few decades China has been growing in leaps and bounds, while Africa has been almost stagnant in terms of growth. It must also be noted that China has been able to attract a lot of FDI which has helped it industrialise its economy. However, Africa has struggled to attract FDI and the little that it got has been resource seeking. The chapter reviews fifteen carefully selected empirical studies that were wrritten on China and another fifteen studies that were written on Africa to isolate the similarities and differences in the determinants of FDI. The objective of the chapter is that it attempts to compare the empirical determinants of inward bound FDI in China and Africa; and find out what makes China an attractive FDI destination as compared to Africa.

BACKGROUND

The chapter attempts to analytically compare the empirical determinants of inward-bound foreign direct investment in Africa and China. According to UNCTAD's World Investment Report (2019), China was the second-largest recipient of FDI in 2019. Its FDI inflows in 2019 were US$140 billion and in 2018 they were US$139 billion. In the case of Africa, FDI inflows were US$47 billion in 2018, and in 2019 they were US$49 billion. It should be noted that in both 2018 and 2019 China is ranked as the second-largest recipient of FDI in the world. Besides, if Africa were a country, it will be ranked as the 10th largest recipient (country) of FDI inflows in the world. Despite its status as the world's second-largest economy, China continues to grow at high rates as it attempts to shift its economy from being export-oriented to domestic consumption-oriented (UNCTAD World Investment Report, 2019). On the other hand, the performance of the African economies is a mixed bag because there a few economies that are growing at impressive rates, while the rest of the continent is performing poorly. During the period 2018 to 2019, the FDI received by China is almost 3 times the FDI received by the entire African continent.

The chapter studies China and Africa because, as illustrated above, China is a success story with regards to inward-bound FDI, while the continent of Africa appears to be the diametric opposite. Studying the determinants of FDI in Africa and China may help shed light on why China has become a success story economically, while Africa has not made any meaningful improvements to the welfare of its people. According to Megbowon, Mlambo, & Adekunle (2019), industrialization which is related to the growth and development of the manufacturing sector is imperative for development as noted by the United Nations Development Organization (2017). This is because it covers the economic, social and environmental dimensions of sustainable development which apply to both developing and developed countries. Industrialisation is essential in that it principally explains the inequality and the wealth gap between the developed and developing countries (Megbowon, et. al., 2019). It should be noted that China has been able to industrialise its economy between 1978 and the present mainly through being able to attract FDI and its aggressive export-oriented industrialisation strategy. Moreover, in the African case, no meaningful industrialisation has taken place, and the amounts of inward FDI the whole continent receives is way smaller compared to what China receives.

Figure 1 shows the trend diagrams of FDI inflows for China and Africa which show that China has consistently received large amounts of FDI than Africa. The Figure shows that what China receives in terms of FDI is more than ten times bigger than what the whole of Africa gets in some of the years.

Figure 1.

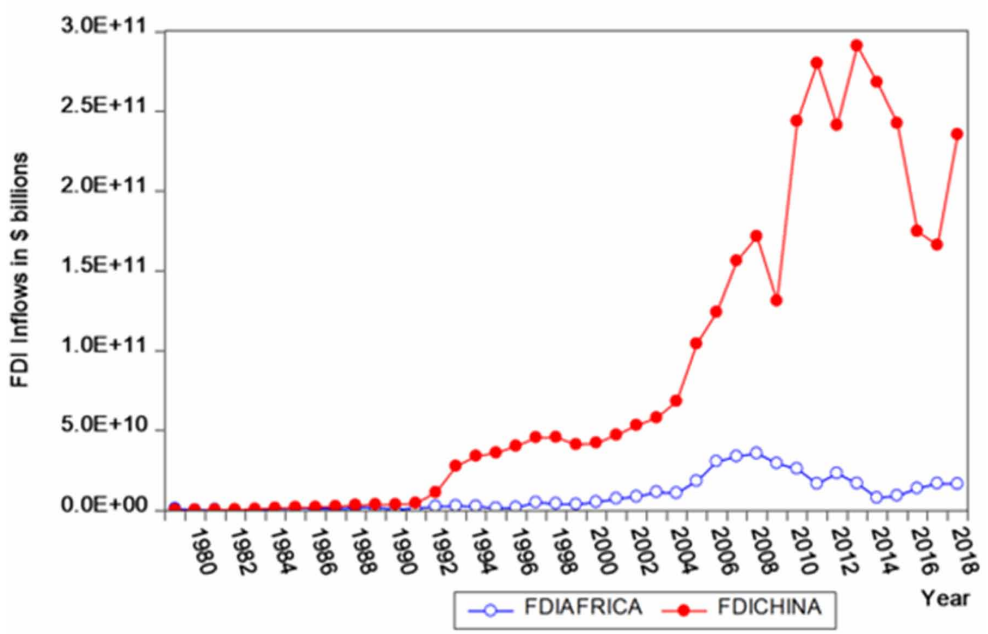
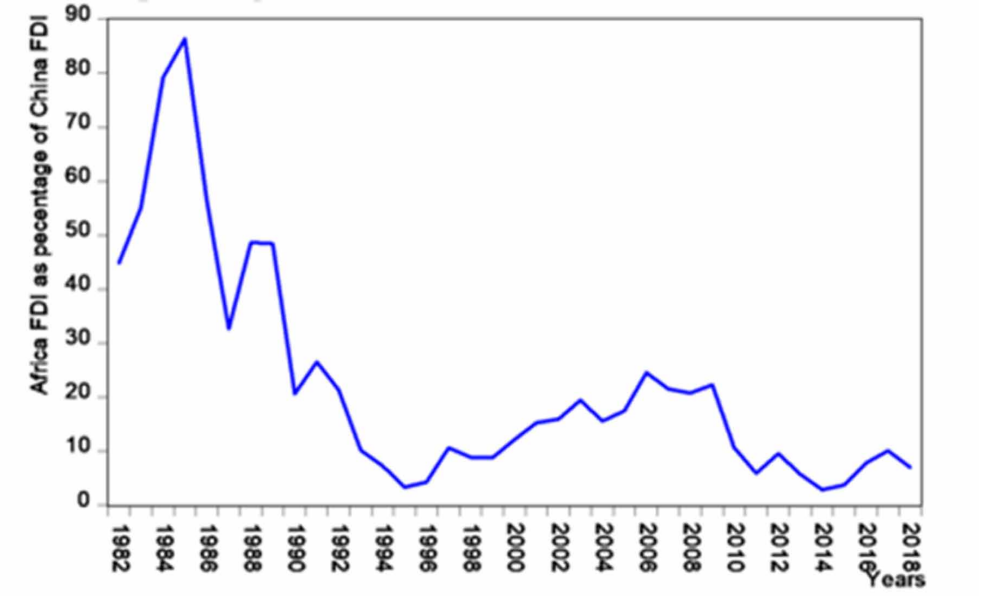


Figure 2 below shows Africa's FDI as a percentage of China's FDI. For the period 1982 to 2018, the average of Africa's FDI as a percentage of China's FDI is about 22.22 per cent, with a maximum of about 87 per cent in 1985 and a minimum of about 4 per cent in 1995 and 2014. This means that the FDI received by China is on average five times greater than the FDI received by the entire African continent for the period analysed. The question that comes to mind is why has China succeeded in attracting FDI, while the African continent has not fared so well. Overall, world FDI has grown exponentially in recent decades principally because of the increased competition among countries in a bid to attract inward bound capital. Inward bound FDI is desirable for host nations, particularly, in emerging and developing markets, since it provides the much-needed capital in these countries. Thus, knowledge about the relevant arguments of FDI in a country or region is critical to the design and implementation of appropriate policies that assist in attracting FDI. According to Tocar (2018), FDI affects the economic development of countries in the market economic system. Despite the importance of FDI highlighted above, the African continent is failing to attract FDI and hence industrialise.

After analysing the volumes and trends of FDI in China and Africa the question that begs to be answered is, "why is it important to attract FDI into developing countries"? This question can be addressed by looking at the perceived advantages associated with FDI (Tocar, 2018). First, foreign capital can be one of the significant sources of fixed assets investment in cases were construction funds are scarce. Second, an increase in foreign capital in an economy can promote the process of industrialization. Third, foreign-funded companies can become critical sources of tax revenue. Fourth, foreign capital can create employment opportunities, which facilitate the domestic labour force transfer primary to secondary and then to the tertiary sectors, which helps improve the quality of the domestic labour force and, therefore, make the country realise the accumulation of human capital. Fifth, inward FDI may promote the optimization and upgrading of industrial structures. Additionally, foreign capital can make the country move from

Figure 2.



being a primary product producer to being a manufacturing workshop and a tertiary services provider. Sixth, foreign capital can also be significant in promoting technological progress. The foreign-funded firms can create technology spillover effects through the importation of equipment and technology. Lastly, the country may be able to set up research and development centres to extend the technology of product chains and provide technical and training assistance to enterprises and their workers.

According to Zhao and Du (2007), Lv, Wen and Xiong (2010) and Zheng and Tan (2011), China started implementing economic reforms and opening up its economy in 1978. They further state that since then, China has consistently adhered to the market economy, opened up its economy and developed foreign trade which has all led to China's extraordinary achievements in economic development. FDI, as the force that spurs economic growth and globalisation, has played an essential part in enhancing China's economic development. It should be noted that China already enjoys all the advantages that are mentioned above and it has been able to move hundreds of millions of its people out of poverty (see Zhao and Du, 2007; Lv, Wen and Xiong 2010; Zheng and Tan 2011). On the other hand, Africa still does not enjoy the advantages enumerated above and this is because Africa receives small amounts of inward FDI (UNCTAD World Investment Report, 2019). The little amounts of FDI received by Africa are one of the reasons why very little industrial development has taken place and this is why most of the African countries experience high poverty levels, inequality and high unemployment (Kariuki, 2015).

Salai-Martin, Doppelhofer, and Miller (2004) argue that the robustness of the factors that affect inward bound FDI can be guaranteed by including as many arguments as possible in the estimated equations. Despite the numerous empirical research carried out to identify the primary arguments of FDI, many economists now resort to choosing as many arguments as possible if there is enough panel pooled data which give the necessary degrees of freedom to handle the analysis (see Wang and Swain, 1995; Kariuki, 2015; Rjoub, Aga, Alrub and Bein, 2017; Bouchoucha and Benammou, 2018; Saini and Singhania 2018). Even though many empirical studies on the factors that affect inward bound FDI have been carried out

utilising panel data with many variables, in China, Africa and other countries, the results obtained have been mixed. This implies that many governments in China, Africa and other countries still do not know the principal factors that affect inward bound FDI in their economies. The principal contribution of the chapter, which makes it fundamentally different from previous research is that it attempts to compare the empirical determinants of inward bound FDI in China and Africa; and find out what makes China an attractive FDI destination. In other words, the chapter attempts to isolate the common and specific factors that affect inward bound FDI in both China and Africa. Such a comparison is vital for policy formulation purposes in Africa because it can recommend steps that assist in attracting inward bound FDI, which is essential for industrialisation and economic development.

This current review has five sections. Section 1 gives the introduction of the subject matter. Section 2 reviews the literature on the Chinese economy. Section 3 reviews relevant literature on the African economies. Section 5 gives a summary and the discussion of the chapter. Lastly, Section 6 provides the conclusion of the research.

FDI DETERMINANTS IN CHINA

The main purpose of the chapter is to compare the empirical determinants of inward-bound foreign direct investment in Africa and China. To achieve this, the following categorisations of the determinants are used in the current and the next section. Theoretical and empirical literature indicates that multinational corporations can be in search of market size, natural and other resources, infrastructure availability, the best location, the best economic policies/stability and the most efficient economies (see Table 1).

In this section, we review 15 articles on the arguments of inward bound FDI in China. The research reviewed includes Wang and Swain (1995), Liu, Song, Wei and Romilly (1997), Zho, Delios and Yang (2002), Sun, Tong and Yu (2002), Cassidy and Andreosso-O'Callaghan (2006), Zhao and Du (2007), Lv, Wen and Xiong (2010), Zheng and Tan (2011), Yin, Ye and Xu (2014), Yong, Yew, Huang and Chin (2016), Jiang, Lin and Hu (2017), Chen and Yan (2018), Hsu, Lee, Leon-Gonzaleza and Zhao (2018), Liu (2019) and Cao and Zong (2019).

Wang and Swain (1995), evaluate the arguments of FDI in Hungary and China utilising time-series data in an OLS equation during the period 1978 to 1992. Wang and Swain (1995), aim to establish the political and economic arguments of FDI in China and Hungary. First, the results illustrate the host nation market size, political stability and cost of capital are significant arguments of FDI in both countries. Second, real average OECD countries growth rates significantly impact inward bound FDI in Hungary. Third, labour costs and exchange rates impact FDI in China and not in Hungary. Lastly, growth rates and productivity do not impact inward bound FDI in China. The article concludes that market size, resources, economic policy and stability factors impact FDI in both Hungary and China.

Liu, Song, Wei and Romilly (1997), investigate the factors that affect inward bound FDI in China for the period 1983 to 1994 utilising panel data analysis. They establish that market size, economic integration levels (denoted by real exports and imports), relative exchange rates, real wage rates and total cultural variations significantly impact inward bound FDI in China. Besides, geographic distance, country risk, and relative borrowing cost insignificantly impact inward bound FDI in China. The study indicates that FDI in China is the market size and economic stability seeking.

Zho, Delios and Yang (2002), assess the arguments of Japanese FDI outflow into China between 1980 and 1998 utilising the Tobit Model. The research establishes that the opening of Special Economic Zones

and Coastal Cities aids to attract Japanese FDI into China. Additionally, liberalisation of the Chinese economy aids to attract FDI into China. In summary, economic policy stability and geographical coastal locations drive inward bound FDI into China.

Sun, Tong and Yu (2002), analyse time-based variations of inward bound FDI among 30 Chinese provinces for the period 1986 to 1998 utilising pooled regression. They attempt to determine the changes in the importance of factors that affect inward bound FDI over time since FDI in China has been shifting in nature over time. They establish that cumulative FDI to cumulative domestic investment significantly and negatively impacts new FDI. The study also establishes that coastal provinces have better FDI distribution than the Central and Western provinces. The study concludes that provincial officials must improve the investment environment in their provinces to prevent multinational corporations from investing in provinces that have fewer FDI competitors. The robustness of the study is ascertained by utilising different specifications. FDI lags and geographical locations drive inward bound FDI into China.

Cassidy and Andreosso-O'Callaghan (2006), assess the Japanese FDI into China by utilising spatial FDI determinants and the OLS regression analysis. The results show that Japanese investment in China is significantly influenced by coastal locations, inland waterways and tertiary education. This implies that Japanese FDI in China is resource, infrastructure and location seeking.

Zhao and Du (2007), using the 1985 to 2003 data, study the causal nexus of FDI and economic growth in China utilising the Toda and Phillips vector autoregression (VAR) regression. The results indicate feedback causality between the two variables, which is weakly significant. This implies that economic growth in China indeed attracts inward bound FDI, which corroborates the market-size hypothesis. On the other hand, the inward bound FDI stimulates the economic growth in China to some degree since it is weakly significant. We conclude that market size drives inward bound FDI into China.

Lv, Wen and Xiong (2010), utilising the 1985 to 2006 data, and a multivariate Ordinary Least Squares (OLS) regression, analyse the determinants of FDI in the agricultural sector of China. To assess the inward FDI performance, an industrial level index is developed. First, the results show that agricultural market size significantly and positively influences inward bound FDI into China's agriculture. Second, agricultural imports negatively and significantly influence inward bound FDI into China's agriculture. Third, agricultural exports positively but insignificantly influence inward bound FDI into China's agriculture. In summary, China's inward bound FDI is market and policy seeking according to this study.

Zheng and Tan (2011), explore the arguments of China's inward bound FDI between 1984 and 2002 utilising the panel model. First, the study establishes that inward bound FDI from non-Organization for Economic Cooperation and Development (non-OECD) investors is both efficiency and market-seeking in China. Second, inward bound FDI from OECD developed countries is established to be market seeking. Third, inward bound FDI from European countries is established to be in search of the vast Chinese market. Lastly, FDI from the United States of America (USA) is established to be stimulated by China's lower input costs. Inward bound FDI in China is, therefore, market size and resource seeking.

Yin, Ye and Xu (2014), evaluate the location factors that affect inward bound FDI in Chinese services utilising provincial-level data for the period 2000 to 2010. The study employs the Generalised Method of Moments (GMM) methodology utilising four hypothesised FDI location determinants in China. Seventeen provinces panel data is used to test the generalised investment theory on China's FDI. The study went on to compare the determinants of services and manufacturing inward FDI utilising the same framework and established that FDI in services and manufacturing in China is market-seeking and client following.

Yong, Yew, Huang and Chin (2016), examine the determinants of FDI in China between 1994 and 2008, utilising a spatial panel analysis method. The researchers start by acknowledging that the geo-

graphical distribution of inward bound FDI may be very biased in that 83% of the inward FDI goes to the eastern region of China. They further state that this is because of the variations in locational advantages and the initiating policies and temporal variations of foreign capital inflows among the regions. The study examines three regions of China, namely Eastern, Central and Western regions. The results show that the arguments of foreign capital inflows differ across the three regions based on policy bias and investor motives. The results indicate that regional locational variations (e.g. coastal locations) attract more inward bound FDI. The results also show that the Eastern region is efficiency-seeking, while the Central and the Western regions are market-seeking. However, all the regions are found to be resource seeking (labour quality). In summary, inbound FDI in China is unequivocally driven by the market size, efficiency of the market, geographical locations and resources availability.

Jiang, Lin and Hu (2017) analyse the determinants of inward bound FDI in China utilising data for the period 2011 to 2016 and the panel Grey relational analysis (GRA). GRA model is a component of the Grey system theory, which identifies and establishes relational rankings between the main behavioural factor and influential factors. The study establishes that Gross Domestic Product (GDP) per capita, enrolment in regular higher education institutions and domestic expenditure on research and development (R & D) significantly determine FDI in China. According to this study, FDI in China is market and economic stability seeking.

Chen and Yan (2018), empirically analyse international visibility as an argument of FDI in the Chinese Provinces. The study uses data for the period 1994 to 2004 and the GMM methodology. According to Chen and Yan (2018), "the frequencies of the usage of Chinese provinces names are collected from millions of English-language books from Google Books (N-gram corpus) and these are used to construct the index of international visibility". Results from the dynamic panel analysis utilising the GMM methodology demonstrates that international visibility has a positive effect on foreign capital inflows after controlling for institutional and economic factors. In addition, international visibility influence differs from one historical period to the other and the state of images formed during these historical periods in China. The study finds that international visibility is much stronger in inland provinces as compared to coastal provinces. International visibility of a province is an essential determinant of FDI in the Chinese provinces.

Hsu, Lee, Leon-Gonzaleza and Zhao (2018), assess the arguments of FDI in China using 1998 to 2008 statistical data and the panel GMM methodology. The study finds that market size and geographical locations significantly impact FDI in China. In addition, tax incentive policies were insignificant. The results of this study led to the termination of tax incentives in China in 2008. We conclude that foreign capital inflows into China seek large market sizes, good geographic locations and economic policy stability.

Liu (2019), analyse the determinants of inward bound FDI in China (1978-2019) utilising descriptive analysis. This analysis is conducted precisely 40 years after China started reforming and opening up the economy. The study establishes that lower labour costs, large market size, agglomeration economies, infrastructure development, improved national policies and improved human capital all significantly impact inward bound FDI in China. The study highlights the fact that China experienced a sharp rise in inward bound FDI since it adopted the economic reforms and opening up in 1978. The study concludes that through the use of foreign capital, China has attained stupendous increases in economic growth as well as long term development. We can conclude that FDI in China seeks lower-cost labour resources, large market size, economic efficiency, developed infrastructure, improved economic policy stability.

Cao and Zong (2019), study the arguments of FDI in China's real estate market for the period 2009 to 2018, utilising the panel model. The study establishes that the larger market size, low valued currency,

market openness, lower labour, land and financing costs significantly influence inward bound FDI into China. Transport infrastructure positively and insignificantly influences inward bound FDI into China. Cao and Zong (2019), conclude that "the development of various regions in China is different, and effective policies must be taken to attract FDI in the real estate market according to local conditions". The other conclusion is that the government must create a fair and competitive environment. We conclude from the study that FDI in China seeks lower labour resources, large market size, economic efficiency and improved economic policy stability.

FDI DETERMINANTS IN AFRICA

In this section, we review fifteen (15) empirical studies on the determinants of inward-bound FDI in Africa. The research articles reviewed include Asiedu (2002), Moosa and Cardak (2006), Naude´ and Krugell (2007), Barthela, Busse and Osei (2008), Seetanah and Rojid (2011), Selelo (2012), Rogmans and Ebbers (2013), Kariuki (2015), Sikwila (2015), Suleiman, KalIappan and Ismail (2015), Rjoub, Aga, Alrub and Bein (2017), Bouchoucha and Benammou (2018), Saini and Singhania (2018), Arawomo and Apanisile (2018) and Asiamah, Ofori and Afful (2019).

Asiedu (2002), investigates the arguments of inward bound FDI in African states between 1988 and 1997 utilising the OLS regression method. The study results show that a higher investment return and improvements in infrastructure impact inward bound FDI significantly in non-Sub-Saharan African (non-SSA) countries. The study also establishes that openness to trade significantly impacts inward bound FDI to SSA as well as non-SSA countries. This implies that inward bound FDI in non-SSA and SSA countries are driven by improved economic policy stability and infrastructure.

Moosa and Cardak (2006), assess the arguments of inbound FDI on a cross-section of 138 countries which incorporated both developed and developing countries. The study uses the Extreme Bounds Analysis methodology and eight independent variables in a bid to include as many FDI determinants as possible in the analysis. Moosa and Cardak (2006), establish that "exports as a percentage of GDP, telephone lines per 1000 of the population and lower country risk were positively and significantly associated with inward bound FDI". The, further add that "because developed countries have large economies, high degree of openness and low country risk, they tend to attract more inbound FDI". FDI is driven by improved infrastructure and improved economic policy stability in the studied countries.

Naude´ and Krugell (2007), investigate geographical locations and the strength and quality of institutions as arguments of inbound FDI in Africa utilising the panel GMM. The study asserts that the estimation techniques used in some previous research, such as OLS, may be flawed that is why it adopted the dynamic one-step GMM estimator. The study establishes that inward bound FDI in Africa is explained by the inflation rate, investment, government consumption, governance (accountability, the rule of law regulatory burden, political stability) and initial literacy. The study finds that geographical location is an insignificant determinant of inward bound FDI in Africa. Political stability as a proxy for institutions significantly determines inward bound FDI in Africa. Inward bound FDI in Africa is, therefore, driven by market efficiency, market size and economic policy.

Barthel, Busse and Osei (2008), research the features and determinants of inward bound FDI in Ghana. Their study utilises data from 1980 to 2006 in a panel OLS model. The labour market, property registration and access to land significantly impact inbound FDI in Ghana. The study also establishes that credit is not a big problem for large multinational enterprises (MNEs) in Ghana. In addition, politi-

cal stability is established to be a critical variable that attracts FDI in mining. FDI in Ghana is resource and economic stability seeking.

Seetanah and Rojid (2011), explores the determinants of inward bound FDI in Mauritius between 1960 and 2004 utilising a differenced VAR (DVAR) model. The market size is found to have a smaller impact on inward bound FDI, possibly because of the small population size in Mauritius. Also, trade openness, low wages and good quality of labour were significantly influencing inward bound FDI. The research recommends the use of fiscal investment incentives and lower labour costs to ensure that Ghana remains competitive compared to other recipients of inward bound FDI. Inward bound FDI is driven by market size, resources as well as economic policy stability.

Selelo (2012), examines the arguments of fixed inward bound FDI in Botswana between 1980 and 2007 utilising the vector error correction (VEC) technique. Inward bound FDI in Botswana is relatively more skewed towards diamond mining. The study finds a long-run equilibrium relationship between inward bound FDI and the independent variables, including government expenditure, human capital, GDP growth, domestic investment and terms of trade. Economic growth rates are also found to influence inward bound FDI in Botswana significantly. This outcome proposes that inward bound FDI is market and resource-driven in Botswana.

Rogmans and Ebbers (2013), explore the determinants of inward bound FDI for the period 1987-2008 in the Middle East North Africa (MENA) region, utilising OLS Models. In the results, energy endowments adversely and significantly impact inward bound FDI in the MENA region. Additionally, trade openness, and oil prices and GDP per capita all positively and significantly impact inward bound FDI, while energy endowments negatively and significantly affect inward bound FDI. Additionally, results indicate that environmental risk was not significant as a differentiating factor in the MENA region member countries. Countries with vast deposits of oil and gas are found to have policies and institutions that inhibit inward bound FDI. Inward bound FDI in the MENA region is market size, as well as, economic policy stability seeking.

Kariuki (2015), examines inward bound FDI determinants in the African Union using data from 1984 to 2010 and the panel Least Squares Dummy Variable (LSDV) methodology. Economic and political and financial risks negatively and significantly influence inbound FDI in Africa. Commodity price index, stock market performance, infrastructure development, openness and the levels of previous inbound FDI positively and significantly impact inbound FDI in Africa. This implies that inbound FDI in Africa is market size, infrastructure and improved economic policy stability driven.

Sikwila (2015), investigates if FDI matters in the case of Zimbabwe utilising OLS and data for the period 1980-2012. The result indicates that domestic investment, trade openness, output and political stability significantly impact inward bound FDI into Zimbabwe. Additionally, the article establishes that inflation significantly and negatively impacts inward bound FDI into Zimbabwe. The hypotheses that property rights, as well as indigenisation policies, impact inward bound FDI negatively in Zimbabwe, are not supported by the findings. The findings also confirm the acceleration theory of investment applicability in Zimbabwe. The study also recommends that appropriate policy measures based on the arguments of FDI found significant will help improve inward bound FDI into Zimbabwe. The study concludes that inbound FDI is driven by economic policy stability, efficiency and market size.

Suleiman, KalIappan and Ismail (2015), investigates the arguments of inward bound FDI in the Southern Africa Customs Union (SACU). The study uses data for the period 1990 to 2010 using Panel OLS. The findings establish that trade openness, natural resource availability and market size significantly

impact inward bound FDI in the SACU region. In summary, market size, natural resource availability and improved economic policy stability impact inward bound FDI into the SACU region.

Rjoub, Aga, Alrub and Bein (2017), explore the arguments of inbound FDI and financial reforms in Sub-Saharan Africa landlocked countries. The study focusses on the period 1995 to 2013, applying the panel data technique. The study established that human capital, trade openness, political constraints, natural resource endowment, domestic investment and the market size significantly influence inbound FDI. Additionally, countries' tax policies negatively and significantly impact inward bound FDI. In summary, natural resource availability improved economic policy stability and market size positively impact inward bound FDI in Sub-Saharan Africa.

Bouchoucha and Benammou (2018), explore the determinants of inward bound FDI in Africa using data from 1996 to 2013 and the panel-based GMM. The results indicate that capacity to control corruption, governments effectiveness, regulation quality and accountability significantly influence inward bound FDI into Africa. These results indicate that inward bound FDI into Africa is efficiency-seeking.

Saini and Singhania (2018), use the GMM methodology and data for the period 2004 to 2013 to analyse the determinants of inward bound FDI in developing and developed countries. Their results indicate that openness of trade, index of freedom and growth of GDP significantly impact inward bound FDI in developed countries. Additionally, total investment, the openness of trade, and efficiency variables positively and significantly impact inbound FDI in developing countries. The article also asserts the roles of multinational corporations and governments in contributing to improved working conditions in inbound FDI recipient countries. In summary, inward bound FDI seeks market size and sound policies in developed countries, while it seeks economic policy stability in developing countries.

Arawomo and Apanisile (2018), use the autoregressive distributed lag (ARDL) methodology and the data for the period 1986 to 2014 to explore the determinants of inward bound FDI in the Nigerian telecommunications sector. The study results indicate that inward bound FDI is significantly determined by the size of the market, openness of trade and government expenditure, while real interest rate and inflation negatively and significantly impact inward bound FDI in the telecommunications sector. In summary, inward bound FDI in the Nigerian telecommunications sector is determined by the size of the market and economic stability.

Asiamah, Ofori and Afful (2019), use a single equation vector error correction model (VECM) and the data for the period 1990 to 2015 to investigate the determinants of inward bound FDI in Ghana. Results from this study indicate that the rate of inflation, rate of exchange and rate of interest have significant adverse effects on inward bound FDI. Results also indicate that telephone usage, electricity production and gross domestic product, have significant positive impacts on inward bound FDI. In summary, inward bound FDI in Ghana is driven by improvements in infrastructure, size of the market and economic policy stability.

DISCUSSION

The main purpose of the chapter is to compare the empirical determinants of inward-bound foreign direct investment in Africa and China. The findings of the study are summarised in Tables 1 and 2. Most of the research reviewed on China shows that the market size is significantly associated with inward bound FDI (see Wang and Swain, 1995; Liu, Song, Wei and Romilly, 1997; Zhao and Du, 2007; Lv, Wen and Xiong, 2010; Zheng and Tan, 2011; Yin, Ye and Xu, 2014; Yong, Yew, Huang and Chin, 2016; Jiang,

Lin and Hu, 2017; Hsua, Leeb, Leon-Gonzaleza and Zhao, 2018; Liu, 2019; Cao and Zong, 2019). Additionally, the majority of the research on Africa generally concurs that the bigger the size of the market the more substantial the positive and significant influence on inward bound FDI (Naude´ and Krugell, 2007; Seetanah and Rojid 2011; Selelo, 2012; Rogmans and Ebbers, 2013; Kariuki, 2015; Sikwila, 2015; Suleiman, KalIappan and Ismail, 2015; Rjoub, Aga, Alrub and Bein, 2017; Saini and Singhania, 2018; Arawomo and Apanisile, 2018; Asiamah, Ofori and Afful, 2019). In all the research in which market size was one of the factors that affect inward bound FDI, no study found the market size insignificant. Large market size as a driver of the inward bound FDI is equally essential in both China and Africa.

The economic stability factors that impact inward bound FDI include all the policy and economic stability related variables (see Table 1 for the details). The economic stability factors are the majority of the variables that are included in econometrics models by researchers who study the factors that affect inward bound FDI. Some research established that the economic stability related variables significantly explained inward bound FDI in China with the correct signs (Wang and Swain 1995; Liu, Song, Wei and Romilly, 1997; Zho, Delios and Yang, 2002; Jiang, Lin and Hu, 2017; Hsua, Leeb, Leon-Gonzaleza and Zhao, 2018; Liu, 2019; Cao and Zong, 2019). Besides, economic policy stability variables significantly explain inward bound FDI in most research in African countries with the correct signs (Asiedu, 2002; Moosa and Cardak, 2006; Naude´ and Krugell, 2007; Barthel, Busse and Osei, 2008; Seetanah and Rojid, 2011; Rogmans and Ebbers, 2013; Kariuki, 2015; Sikwila, 2015; Rjoub, Aga, Alrub and Bein, 2017; Saini and Singhania, 2018; Arawomo and Apanisile, 2018; Asiamah, Ofori and Afful, 2019). Only one study on China by Wang and Swain (1995) establishes that growth rates and productivity insignificantly impact inward bound FDI in China. The empirical research appears to suggest that economic policy stability factors are more important in Africa than in China. This is because China started liberalising and opening up its economy well before the African countries. In addition, China has been enjoying relative economic stability than Africa in terms of inflation, exchange rates and real interest rates for several decades.

Natural and other resources such as natural resources endowment, human resources (productivity and quality) and lower costs (land, labour and financing) are significantly associated with inward bound FDI into China (Wang and Swain, 1995; Cassidy and Andreosso-O'Callaghan, 2006; Zheng and Tan, 2011; Yong, Yew, Huang and Chin, 2016; Liu, 2019; Cao and Zong, 2019). Besides, Barthel, Busse and Osei (2008), Seetanah and Rojid (2011), Selelo and Sikwila (2012), Suleiman, KalIappan and Ismail (2015) and Rjoub, Aga, Alrub and Bein (2017) also establish that natural and other resources are significantly associated with inward bound FDI in Africa. From the empirical research summarised above, it appears as if natural and other resources equally impact both China and Africa. There is one study on the MENA region that establishes that inward inbound FDI is adversely and significantly impacted on by natural resources such as oil (see Rogmans and Ebbers, 2013).

Infrastructural factors that impact inward bound FDI cited in the empirical research include telephone lines per 1000 of the population, infrastructural development, electricity production, inland waterways and telephone usage. Infrastructural development is found to influence inward bound FDI in China significantly (Cassidy and Andreosso-O'Callaghan, 2006; Liu, 2019). Regarding Africa, Asiedu (2002), Moosa and Cardak (2006), Kariuki (2015), Asiamah, Ofori and Afful (2019) also established that inward bound FDI was also significantly influenced by infrastructural development. The infrastructural development impact on inward bound FDI appears to be more critical in Africa than in China, probably because infrastructure is relatively underdeveloped in Africa as compared to China. A study by Cao and Zong

(2019), establishes that transport infrastructural development is insignificant in China; and this may be because the Chinese transport infrastructure is already highly developed.

Location factors used in the study include geographic locations, geographical distance and geographical proximity. Location factors are found to be significantly associated with inward bound FDI in research that includes Zho, Delios and Yang (2002), Sun, Tong and Yu (2002), Yong, Yew, Huang and Chin (2016), Hsua, Leeb, Leon-Gonzaleza and Zhao (2018). From the empirical research summarised, it is abundantly clear that geographic locations and geographical proximity are not an essential argument of inward bound FDI in Africa, but they are significant in China. The majority of the research that includes this factor when studying the Chinese economy found it significant. This is because most of the Chinese Export Processing Zones and regions that receive the majority of the inward bound FDI are in coastal areas (see Zho, Delios and Yang, 2002; Yong, Yew, Huang and Chin, 2016). The study by Liu, Song, Wei and Romilly (1997), is the only one that found geographical distance insignificant in explaining inward bound FDI into China.

The efficiency factors investigated in the empirical inward bound FDI literature include privatisation methods, transition progress, agglomeration and institutional quality. Also, institutional quality includes levels of political constraints, the freedom index, accountability, the quality of regulations and the levels of corruption. Improved efficiency of the economy and markets is found significantly associated with inward bound FDI in China in the empirical studies which include Yong, Yew, Huang and Chin (2016), Liu (2019) and Cao and Zong (2019). In the case of Africa, the efficiency of the market variables are significant in explaining inward bound FDI in research by Sikwila (2015) and Bouchoucha and Benammou (2018). The efficiency argument of inward bound FDI appears to be equally important in both China and Africa. This result may be misleading in that very few empirical studies utilise the efficiency variable in their research. A much clearer picture may emerge if more and more researchers start utilising the efficiency variable in their research.

The other factors that fall outside the categories discussed above are political, inward bound FDI lags, international visibility and cultural variations. First, the favourable political climate is found to influence inward bound FDI in African countries (Naude´ and Krugell, 2007; Barthel, Busse and Osei, 2008) and this is because there are still some African countries that are politically unstable. Second, inward bound FDI lags are found to significantly influence inward bound FDI in the African Union (Kariuki, 2015). Third, increased international visibility is established to significantly influence inward bound FDI in China (Chen and Yan, 2018). Lastly, total cultural variations are found to have a positive and significant impact on inward bound FDI in China (Liu, Song, Wei and Romilly, 1997). Inward bound FDI from countries that China shares borders with like Russia, Japan, South Korea, Malaysia, the Philippines, and Taiwan tend to be higher than FDI from far off regions of the world.

CONCLUSION AND RECOMMENDATIONS

Previous empirical research is utilised in this analysis to compare the primary factors that influence inward bound FDI in China and Africa. The analysis differs from previous research in that it attempts to isolate the common and specific factors that affect inward bound FDI in both China and Africa.

Tables 1, 2, and 3 summarise the results of the determinants of inward bound FDI in both Africa and China. We conclude that the determinants of FDI common to both Africa and China include the market size, economic stability, resource, infrastructure and efficiency-seeking factors. First, African countries

Table 1. A Comparative Summary of the Determinants of FDI in Africa and China

Common Determinants of FDI in Africa and China	
• Market size seeking o *Size of real GDP* o *Size of the population* o *Productivity*	
• Economic stability seeking o *Trade openness* o *Tax policy* o *Domestic investment* o *Inflation* o *Exchange rates* o *Real interest rates*	
• Resource seeking o *Natural resource endowment* o *Quality of human resources and productivity*	
• Infrastructure seeking o *Telephone lines per 1000 of the population* o *Infrastructure development* o *Electricity production* o *Telephone usage*	
• Efficiency seeking o *Privatisation method* o *Transition progress* o *Institutions* - *Level of political constraints* - *Freedom index* - *Accountability* - *Quality of regulations* - *Corruption*	
Specific determinants of FDI in China	**Specific determinants of FDI in Africa**
• International visibility	• Political stability is key to attracting FDI in mining
• Internal expenditure on research and development	• Borrowing costs and country risks
• Location and proximity o *Geographic locations* o *Geographic proximity*	• Access to land and property registration
• Total cultural variations o *More FDI inflows from neighbouring countries* o *Less FDI inflows from far away countries*	
• Special Economic Zones and Opening Coastal Cities	
• The liberalisation of the Chinese economy	

with big populations and Gross Domestic Product attract more FDI. Second, countries which are economically stable in Africa attract more FDI than the unstable ones. Third, African countries with a good endowment of resources, good infrastructure and are efficient attract more FDI. Finally, because China has an enormous market size, economic stability, good resource endowment, good infrastructure and efficiency it has managed to attract humongous amounts of FDI from different continents of the world.

From Tables 1 and 3 we conclude that the determinants of FDI specific to African countries include political stability (mining FDI), borrowing costs, country risks, access to land and property registration. Political stability is important to Africa because some countries still have political instability such as

the Democratic Republic of Congo, Zimbabwe etc. Political instability also appears to be closely linked with high country risks, high borrowing costs, poor access to land and a high number of the unregistered property.

Using the information in Tables 1 and 2 we conclude that the determinants of FDI that are specific to China include international visibility of regions, internal expenditure on research and development, geographic location and proximity (special economic zones and the opening of coastal cities), total cultural variations and the liberalisation of the Chinese economy. First, the Chinese regions that are internationally visible have managed to attract more FDI than those that are not. Second, internal research and development have made manufacturing companies improve their production techniques and efficiency. Third, coastal geographic location and proximity to the special economic zones have also helped to attract FDI to certain regions in China. In addition, the special economic zones also come with incentives to prospective investors and this helped to attract FDI to the coastal regions of China where they are located. Fourth, the liberalisation of the Chinese economy since 1978 and zero tolerance on corruption has led to the transformation of the Chinese economy to what it is today. Fifth, total cultural variations imply that China receives more FDI from its neighbours such as Russia, Japan, South Korea, Malaysia, the Philippines, and Taiwan than from other parts of the world.

Finally, we discuss the policy implications of the study findings. First, African countries must aggressively market themselves just like what the Chinese regions did to attract more FDI into their economies. Second, African governments can invest in research and development to improve manufacturing production techniques and efficiency. Third, African governments can invest in the creation of special economic zones since these helped China to attract more FDI. Fourth, African countries can attempt to attract more FDI from their neighbours or countries closer to them than from far-off places. Last, African governments can liberalise their economies by joining regional economic groupings and also wage wars against corruption to attract more FDI.

It should be noted that while these empirical studies reveal the primary factors that impact inward bound FDI in China and Africa, the sizes of these primary arguments effects on inward bound FDI vary across the different studies. In particular, some factors that affect inward bound FDI, such as real GDP, size of the population, rates of inflation, rates of exchange, rates of interest rates, natural and other resources, among others, show mixed results. This suggests that homogeneity does not exist in the results of the studies that analyse the determinants of inward bound FDI. Most of the research reviewed only used a limited number of independent variables, and their conclusions are impacted by this limitation imposed on the regression models. Consequently, building on these limitations, I first propose the use of panel models with many variables which take account of the different categories of variables discussed in the study. Second, I propose the replication of the current study to compare developed and developing countries. Lastly, I propose using quantitative techniques or meta-regression analysis to examine the quantum impact of the factors that affect inward bound FDI, primarily, for those series that most often produce mixed results.

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APPENDIX

Table 2. Research on China

Authors	Countries and Period	Methodology	Arguments that significantly impact growth
Wang and Swain 1995	Hungary and China; 1978-1992	OLS multiple regression	- Market size is significant in both countries - Real average OECD countries growth rates impact inward bound FDI in Hungary - Growth rates and productivity do not impact inward bound FDI in China. - Exchange rates and labour costs impact FDI in China and not Hungary.
Liu, Song, Wei and Romilly 1997	China; 1983-1994	Panel Data Analysis	- Market size - Real wage rates - Relative exchange rates - Relative borrowing costs and country risk do not impact inward bound FDI in China. - Economic integration (real exports and imports) - Geographic distance does not impact inward bound FDI in China - Total cultural variations significantly
Zho, Delios and Yang 2002	Japanese FDI in China; 1980-1998	Tobit Model	- Special Economic Zones and Opening Coastal Cities aided to attract Japanese FDI into China. - The liberalisation of the Chinese economy aided to attract FDI into China.
Sun, Tong and Yu 2002	China; 1986-1998	Panel Pooled regression	- Cumulative domestic investment and cumulative FDI have a negative impact on new FDI.
Cassidy and Andreosso-O'Callaghan 2006	China; 1980-2001	OLS regression	- Tertiary education, Inland waterways and Coastal locations are positive and significant arguments of Japanese FDI in China
Zhao and Du 2007	China;1985-2003	VAR by Toda and Phillips	- Two-way causal nexus between FDI and economic growth is marginally significant. - China's economic growth attracts FDI, which supports the market size hypothesis. - FDI influx stimulates economic growth, albeit, insignificantly.
Lv, Wen and Xiong 2010	China; 1985-2006	Multivariate OLS regression	- The agricultural market size has a negative effect on inbound FDI to China's agriculture. - Agricultural exports are positive but insignificant to inbound FDI inflow.
Zheng and Tan 2011	China; 1984-2002	Panel Model	- FDI from non-OECD investors is both efficiency and market-seeking in China - FDI from OECD developed countries is market seeking. - FDI from Europe is large market seeking. - China's lower input costs stimulate FDI from the USA.
Yin, Ye and Xu 2014	Chinese Provincial-level Data; 2000-2010	Panel GMM	- FDI is market-seeking and client following in China
Yong, Yew, Huang and Chin 2016	China; 1994-2008	Spatial Panel Analysis	- Regional locational variations, e.g. coastal locations attract more FDI - Policy variations across regions explain the variations in regional inward bound FDI. - Eastern region is efficiency-seeking - Labour quality is important across all regions - Central and Western regions are market-seeking

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Table 2. Continued

Authors	Countries and Period	Methodology	Arguments that significantly impact growth
Jiang, Lin and Hu 2017	China; 2011-2016	Panel data Grey matrix	- GDP per capita - Enrollment of regular institutions of higher education, and, - Internal expenditure on R & D
Chen and Yan 2018	Chinese Provinces; 1994-2004	Generalized Method of Moments	- International visibility controlling for economic variables.
Hsua, Leeb, Leon-Gonzaleza and Zhaoc 2018	China; 1998-2008	Panel Generalized Method of Moments	- Market size - Geographical locations - Tax incentive policies were insignificant (tax incentives were terminated in 2008)
Liu 2019	China (after 40 Years of Reform and Opening Up); 1978-2019	Descriptive Study	- Labour Costs - Market Size - Agglomeration Economies - Infrastructure Development - National Policies - Human Capital
Cao and Zong 2019	China; 2009-2018	Panel model	- Market size - Exchange rate - Market openness - Labour cost - Land cost - Financing cost - Transport infrastructure is insignificant

Table 3. Research on African Countries

Authors	Countries and Period	Methodology	Arguments that significantly impact growth
Asiedu 2002	Africa; 1988-1997	OLS Regression	- Higher return on investment better infrastructure impact FDI positively in Non-SSA countries. - Openness to trade significantly impact FDI to SSA and Non-SSA countries.
Moosa and Cardak 2006	A Cross-Section of 138 countries	Extreme Bounds Analysis	- Exports as a percentage of GDP - Telephone lines per 1000 of the population - Country risk
Naude´ and Krugell 2007	Africa; 1970-1990	Panel GMM	- government consumption, inflation rate, investment, governance (political stability, accountability, regulatory burden, the rule of law) and initial literacy. - Geography does not significantly impact inward bound FDI in Africa. - FDI in Africa is not market-seeking. - Institutions in the form of political stability.
Barthel, Busse and Osei 2008	Ghana; 1980-2006	Panel OLS	- Access to land, property registration and labour market (regulations, availability of skilled labour, labour productivity). - Credit is not a big problem for large MNEs in Ghana. - Political stability is key to attracting FDI in mining.
Seetanah and Rojid 2011	Mauritius; 1960-2004	VAR model	- Trade openness - Wages - Quality of labour - The market size has a smaller impact on inward bound FDI probably because of the small population size.

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Table 3. Continued

Authors	Countries and Period	Methodology	Arguments that significantly impact growth
Selelo 2012	Botswana; 1980-2007	VECM model	- The long-run economic relationship between inward bound FDI and GDP growth rates, human capital, terms of trade, domestic investment, and government expenditure - Economic growth rates
Rogmans and Ebbers 2013	The Middle East North Africa region; 1987-2008	OLS Models	- Energy endowments negatively impact inward bound FDI. - GDP per capita, trade openness and oil prices have a positive impact on inward bound FDI.
Kariuki 2015	African Union; 1984-2010	Panel Least Squares Dummy Variable	- Economic risk impacts inward bound FDI negatively in Africa. - Political and financial risks have a negative effect on inward bound FDI. - Commodity price index and stock market performance have positive effects on inward bound FDI. - Infrastructure development and openness have positive effects on inward bound FDI. - Previous inward bound FDI has a positive and significant effect on current inward bound FDI.
Sikwila 2015	Zimbabwe; 1980-2012	OLS regression model	- Output - Trade openness - Political stability - Domestic investment - Inflation significantly and negatively impacts inward bound FDI.
Suleiman, KalIappan and Ismail 2015	Southern Africa Customs Union (SACU) Countries; 1990-2010	Panel Pooled OLS	- Market size, - Natural resource availability - Trade openness
Rjoub, Aga, Alrub and Bein 2017	Landlocked Countries in Sub-Saharan Africa; 1995-2013	Panel data analysis	- Domestic investment - Trade (openness) - Human capital - Political constraints removal - Natural resource endowment - Market size - Countries' tax policies negatively impact inward bound FDI.
Bouchoucha and Benammou 2018	African Countries; 1996-2013	Panel Generalized Method of Moments	- Ability to control of corruption - Effectiveness of governments - Quality of regulation - Accountability
Saini and Singhania 2018	Developed and developing countries; 2004-2013	Dynamic Generalized Method of Moments	- GDP growth, trade openness, and freedom index significantly impact inward bound FDI in developed countries. - Gross fixed capital formation, trade openness, and efficiency variables significantly impact FDI in developing countries.
Arawomo and Apanisile 2018	Nigerian Telecommunication Sector; 1986-2014	ADRL model	- Market size - Trade openness - Inflation and real interest rate negatively and significantly impact FDI
Asiamah, Ofori and Afful 2019	Ghana; 1990-2015	VAR-ECM	- The inflation rate, exchange rate and interest rate have a significant adverse effect on FDI. - Gross domestic product, electricity production and telephone usage have a significant positive effect on FDI.

Chapter 25
Foreign Direct Investment in North Africa:
A Descriptive Analysis of the Performance, Policies, Challenges

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ABSTRACT

North Africa is considered to be one of the wealthiest areas of the continent thanks to its natural resources and strategic geopolitical location. While the region is generating about one-third of Africa's total GDP, its economic indicators are not presenting a bright picture for North African countries. This chapter attempts to provide an in-depth overview of the investment environment and shed light on the main constraints on foreign direct investment (FDI) in each of the North African countries. The authors focus on contemporary trends in FDI and policies regarding human capital promotion and infrastructure development. The descriptive analysis indicates that the volume of FDI in the North Africa region is still weak compared to international flows to other developing regions. This outcome can be associated, in addition to unattractive FDI policies, with the absence of real economic and financial reforms, persistent political instability, lack of technological readiness, inadequate regulatory and institutional framework, high corruption and inefficient bureaucracy.

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INTRODUCTION

In the last three centuries, the amount of academic work studying the factors affecting FDI flows has increased, because of the potential positive spillover of foreign direct investment on economic development. Policymakers began adopting new policies those can create a stable atmosphere and prevent avoidable risks for investors.

Dunning (2002) argued that emerging economies need to attract more FDI in order to improve their technological knowledge and capabilities. The benefits of FDI in developing countries can be significant through its role in enhancing the international transfer of capital, technology and management skills. FDI also influence balance-of-payments and level of competition (Ahmed, 2012; Wahab et al., 2012), which can impose burdens on local firms and industries. Moreover, increasing the amount of FDI in the host country may affect national sovereignty negatively through the influence of foreign firms on policymakers (Duanmu, 2014). Thus, governments search for appropriate strategies related to FDI, including the improvement of institutional quality and infrastructure, minimizing entry barriers and improving financial incentives.

In the North Africa region, at the beginning of the 90s, the governments have taken real steps to open the economy and liberalize the financial system to establish a proper investment environment (Rady, 2012). Despite some progress in terms of macroeconomic stability and structural reforms, North African countries still have difficulties in attracting foreign investments (Hisarciklilar et al., 2006), such as poor regulatory and institutional framework (Anyanwu et al., 2016).

Regardless of the cultural and historical commons among North African countries, there are abundant variances in terms of economic, social and political development. There are essential dissimilarities in terms of population and market size between Egypt and other countries. While natural resources represent more than 95% of Algeria's and Libya's exports, it is only about 13% in Morocco and Tunisia.

According to the World Bank, the amount of FDI flows into North African countries has increased from an annual average of US$2.2 billion in the 1990s to US$12.5 billion in 2000s. As shown in Figure 1, the flows of FDI into North Africa made a peak in 2007, reaching 4.5% of regional GDP. However, the level of FDI inflows decreased notably after 2011 due to political disturbances (*Arab Spring*) going down to an annual average of 2% of regional GDP between 2011 and 2015.

Given the size of its natural resources and strategic geographic location, one can easily argue that FDI inflows to North African countries is still insufficient compared to those for other developing regions around the world. The share of FDI inflows into North Africa in aggregate FDI inflows in developing countries is only 3%, compared to 2% in Turkey, 10% in West Asia, 18% in South America, and 37% in East Asia. Moreover, the average of FDI stock over GDP within the period of 1996-2017 in the North Africa region was 25.7% compared to 47.3% Southern Africa region and 49.7% in the South-East Asia region.

In this context, this study provides a general overview of the investment environment in North African countries, namely Algeria, Egypt, Libya, Morocco, and Tunisia. Main observations motivating this study can be summarized as follows:

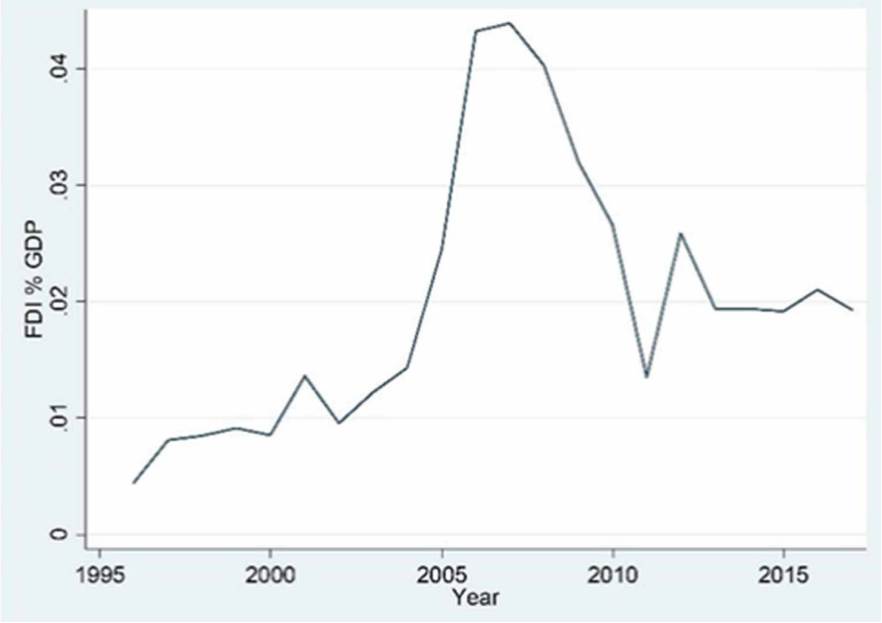
a) Although the North Africa region is one of the wealthiest areas of the world, given its natural resources and strategic location, the weakness of economic and social indicators in this area still represents a considerable challenge for governments and policymakers.

b) Plenty of studies research the determinants of FDI and the role of FDI on economic growth focusing on Sub-Saharan African and MENA countries. However, very few studies genuinely evaluate the investment environment in each one of the North African countries separately.
c) The special nature of the difficulties faced by the North African countries regarding implementing the policies necessary for creating a stable economic environment and attracting foreign investment deserves a closer look to be able to understand the country-specific trends of FDI flows in each of these countries.

Accordingly, this chapter aims to identify the main constraints restricting the FDI inflows in the region and discusses the effectiveness of the implemented investment policies providing highly detailed data about each of the countries.

The remainder of this chapter is organized as follows: Section 2 presents an overview of the investment environment in each of these countries – discussing the economic conditions, historical path of foreign investment laws, human capital and infrastructure development and main investment constraints. Section 3 provides the conclusion of the study.

Figure 1. Trend of FDI Inflow as percentage of GDP in North Africa, 1996-2017
Source: World Bank



OVERVIEW OF THE INVESTMENT ENVIRONMENT IN NORTH AFRICA: ALGERIA

Overview of the Algerian Economy

Algeria is one of the biggest countries in North Africa, with a population of about 41.3 million, according to the 2017 census and with a state surface of 2,381,740 km2, while more than 80% of this land is covered by desert. Algerian economy is based mainly on oil and hydrocarbon industry; being one of the largest gas exporters and ranking 14th in oil reserves in the world. Consequently, the hydrocarbon sector contributes to about 50% of government revenues (IMF, 2016). Despite the abundant resource and high per capita GDP, the Algerian economy is still suffering from the high unemployment rate, and poverty remains prevalent. Algerian government could not manage to diversify the economy, with oil and gas industries dominating 97% of export earnings, and foreign investments were mostly in these industries (International Trade Center Report, 2014).

In Algeria, the amount of inward FDI slightly increased in the 80s, particularly after allowing foreign firms to invest (but only) in the hydrocarbon sector. At the beginning of the 90s, the amount of inward FDI was extremely small due to civil war and unstable political conditions. The economic circumstances in Algeria improved remarkably after 1998 thanks to economic reforms, relative political stability, and high oil prices. All these factors have contributed to reduce the foreign debt, to improve the financial conditions, and to attract FDI. As Figure 2 shows, the size of FDI inflows into Algeria has markedly enhanced after 1998, with the end of civil war and more liberal economic policies. The level of FDI inflow jumped from less than 0.5% in 1997 to 2% of GDP in 2001.

As of 2005, the amount of FDI inflows exceeded one billion US dollars, and these investments were distributed into several sectors outside the hydrocarbon sector. However, the maximum level was reached in 2006 and then started to drop due to many factors such as the 2008 global financial crisis, which had a negative influence on inflow FDI to all developing countries.

Foreign Investment Laws in Algeria: Historical Path

Before 1962, Algeria was under French occupation, and its economy depended mainly on agriculture. In order to improve the investment conditions, the government issued the Law No. 277 of 1963, which primarily focused on encouraging foreign firms to invest in secondary sectors, those other than the strategic industries monopolized by the state. In 1966, the government implemented a new investment law that provided guarantees related to the "right of transformation" for the profits, and some tax exemptions. However, this act failed to attract new foreign investment because it involved terms giving the government the right to nationalize these firms and to settle disputes according to Algerian judicial system. In the 1970s, due to the vital role of oil revenues, the government started to divert its economic interests to the oil sector. Algerian government issued Law No. 13 of 1982, stating that foreign firms cannot own more than 49% of local firm's capital, and mixed businesses can benefit from tax exemption on real estate for periods of up to five years and three years on industrial and commercial profits. Until 1992, in addition to the repercussions of the civil war on the Algerian economy, the investment climate in Algeria was suffering from some downsides due to investment restrictions and discrimination between local and foreign investors on one side and public and private investors on the other side. In 1993, the Algerian Promotion Investment Agency was established to encourage FDI by eliminating some of the investment barriers

and facilitating organizational procedures, granting tax exemptions, and other incentives. In 2001, the government issued a new investment law by providing additional set of incentives to foreign investors. Law No. 4 of 2001 was considered as a turning point for the Algerian economy toward liberalizing the economy, mostly through more liberal privatization policies.

In terms of regulatory and bureaucratic environment, the government has lowered the business registration fees to 0.2% and shortened response time to 75 hours and allowed foreign investments to benefit from VAT exemption on goods and services if directly used as inputs for their investment. In addition, foreign investments were exempted from taxation on corporate profits and land tax on real estate if directly related to the investment, during the implementation period (10 years). From 2005 to 2009, the government took a series of additional reforms to attract foreign investment, including the 2006 Supplementary Finance Act wherein corporate profit tax is declined from 30% to 25%, and the reinvestment profit tax lowered from 15% to 12.5%.

Figure 2. Trend of FDI Inflow as Percentage of GDP in Algeria, 1996-2017
Source: World Bank



Human Capital Development in Algeria

The availability of skilled labor plays a vital role in attracting FDI to the host country. Human capital represents the set of knowledge, education, qualifications, and skills of a given society (Dorozynska and Dorozynski, 2015). It is known that there is an inverse U-shaped relationship between human capital and foreign direct investment (Zhang-Markusen, 1999). Accordingly, low wage nations with weak human capital may fail to attract FDI (Akin and Vlad, 2016). Existence of high level of education together with skilled labor in the host country enhances inflows of FDI and qualified and experienced workers is a

vital factor, especially in attracting resource-seeking and efficiency-seeking FDI (Onwuka and Chaiechi, 2013). More importantly, Feeny et al. (2014) consider human capital as a cornerstone for absorbing foreign knowledge and is a crucial component to achieve positive spillovers from FDI.

According to the Labor Force Survey of 2014, the shortcoming of the skilled labor force in Algeria is still one of the central challenges in the labor market, while the skilled labor force is suffering from the inefficient labor market. Based on the official statistics, only 12% of the employed labor force has a higher education degree, and the rate of unemployment has declined for those with lower education. Regarding quality of the education system, as shown in Table 1, Algeria is suffering from the low quality of the educational system, particularly at the primary level. During the period of 2009 to 2017, although the school enrollment rates seem to be increasing, there were no notable improvements regarding the quality of the Algerian educational system. Moreover, the labor market in Algeria seems to be facing difficulties in terms of staff training

Table 1. Index of Education System Performance in Algeria

Indicator	2009 Rank (out of 134)	2011 Rank (out of 139)	2013 Rank (out of 144)	2015 Rank (out of 144)	2017 Rank (out of 137)
Quality of primary education	103	96	129	121	95
Quality of the educational system	122	117	131	114	97
Quality of management schools	117	91	132	115	112
Extent of staff training	128	103	142	118	129
Primary education enrollment (net rate, %)	50	58	49	41	51
Secondary education enrollment (gross rate, %)	78	80	52	46	47
Tertiary education enrollment (gross rate, %)	80	87	74	78	74
Source: Global Competitiveness Report (2009, 2011, 2013,2015, 2017)					

Infrastructure Development in Algeria

The availability of good quality infrastructure is a fundamental element in encouraging FDI as it can reduce the costs of production (such as transportation costs and electricity costs), and increase the rate of return on private investment.

There is a long list of studies, including Fung (2005), Bellak and Leibrecht (2009), Rehman et al., (2011), Khachoo and Khan (2012), Choi and Shoham (2016), Kaur and Yadav (2016), that investigates the effect of infrastructure development on boosting FDI flows. The results indicate the clear positive association of FDI inflows with infrastructure development.

Despite the many infrastructure projects that mainly focused on transportation networks, maritime transport, and communication, the Algerian infrastructure, compared to other African and Arab countries, is still inefficient and needs more effort. As Table 2 shows, the rank of Algeria regarding the quality of port infrastructure and air transport infrastructure is very low. Similarly, the Algerian government is lagging regarding the improvement of the quality of overall infrastructure.

Table 2. The Index of Infrastructure Development in Algeria

Indicator	2009 Rank (out of 134)	2011 Rank (out of 139)	2013 Rank (out of 144)	2015 Rank (out of 144)	2017 Rank (out of 137)	
Quality of overall infrastructure	85	86	102	102	97	
Quality of roads	77	66	88	107	89	
Quality of railroad infrastructure	63	65	90	65	49	
Quality of port infrastructure	103	115	131	117	96	
Quality of air transport infrastructure	106	98	125	128	107	
Quality of electricity supply	74	69	80	91	93	
Source: Global Competitiveness Report (2009, 2011, 2013,2015, 2017)						

Main Investment Constraints in Algeria

Creating a stable business environment has a major role in attracting FDI inflows, through the improvements in the legal system, ease of doing business, transparent bureaucracy, control of corruption, etc. In the Algerian case, the business environment still poses some constraints on economic and investment expansion despite the government's attempts. Many regulatory constraints are imposed on foreign investors, such as compelling foreign investors to have a local partner for 51% of their investment in Algeria.

To evaluate the business environment in Algeria, we used the Global Competitiveness Index that was developed by the World Economic Forum in cooperation with global academic institutes. Table 3 provides an assessment of the primary business indicators in Algeria such as institutional quality, infrastructure development, macroeconomic stability, health and primary education, market size, and financial market development. These indicators point out that the business environment in Algeria is still lagging despite some decent reform efforts. Similarly, the 2013 report of the Heritage Foundation illustrates that regarding the Economic Freedom Index, Algeria still takes a low classification compared to most of the Middle East and North African countries. This is likely to be caused by prevalent legal constraints on foreign ownership, inefficient business regulation, and widespread corruption.

Moreover, the rigidity of administrative regulations still represents one of the biggest obstacles that hinder the investment environment in Algeria. Inefficient government bureaucracy slowing down business registration and permit issuance is considered to be one of the most important obstacles for foreign investments in Algeria. The Algerian business environment is also suffering from ambiguity and complexity of commercial law, which created a case of confusion among foreign investors who are forced to rely on local lawyers or agents to ensure that all procedures and rules are followed. Moreover, the government imposes some constraints on granting the residence permits for foreign nationals. In the same context, foreign investors are not allowed to remit their profits easily, for which the government requires them to follow some identification and repatriation procedures and the process is extremely slow. Thus, foreign firms need to have a stronger cash flow capacity, which increases the burdens on required capital for investment. Additionally, international investors working in Algeria are required to pay different types of fees, such as social security, which amounts to 48% of the total salary.

Table 3. Global Competitiveness Index with Main Business Climate Indicators for Algeria

Indicator	2009 Rank (out of 134)	2011 Rank (out of 139)	2013 Rank (out of 144)	2015 Rank (out of 144)	2017 Rank (out of 137)
Global Competitiveness Index	99	86	110	79	86
Institutional quality	102	98	1**41**	101	88
Infrastructure development	84	87	100	106	93
Macroeconomic stability	5	57	23	11	71
Health and primary education	76	77	93	81	71
Market size	51	50	49	47	36
Financial market development	132	135	142	137	125
Source: ***The Global Competitiveness Report (2009, 2011, 2013, 2015, 2017)***					

All these indicators demonstrate that to substantially improve the country's ability to attract foreign investments and achieve economic diversification, Algerian policymakers need to devote their efforts and attention to innovative approaches. Unfortunately, the dominant hydrocarbons sector does not generate the incentives needed to open up the Algerian economy and do the necessary reforms. Thus, it is critical to point out that, Algeria seems to be another example of countries where an abundance of natural resources while encouraging FDI inflows, is associated with poor institutional quality and makes the country susceptible to rent-seeking behavior of large multinational corporations (Subasat and Bellos, 2013).

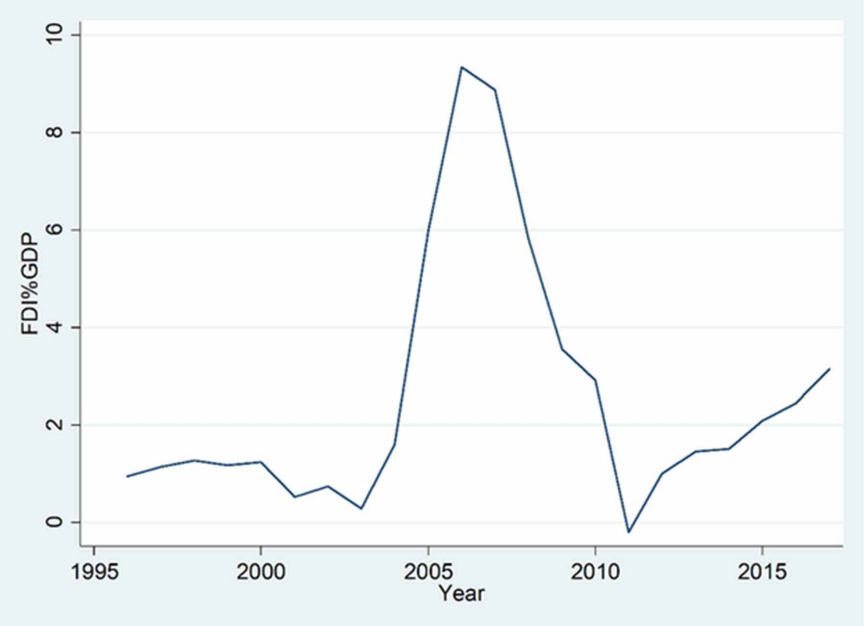
EGYPT

Overview of the Egyptian Economy

According to the 2018 census, the population of Egypt is about 98 million and is located in a highly strategic geographical location. GDP of Egypt reached US$235 billion in 2017, with a US$2400 per capita GDP. As for the labor market, the unemployment rate was around 12% in 2017 (IMF). The Egyptian economy has a significantly different structure compared to Algerian economy, with an economic structure relying on other sectors, such as manufacturing, agriculture, and tourism in addition to oil, and gas industries. It has a more balanced structure, where the contribution of manufacturing industries in Egyptian GDP reaches 32% being the second-largest sector, and about 13% of the total labor force is employed in industrial activities. The service sector, including trade, banking, and shipping services, accounts for 33% of the Egyptian GDP and the agriculture sector accounts for another 13%.

As Figure 3 shows, the volume of FDI inflows to Egypt has increased gradually from 1995 to 2000, from less than 1.5% of GDP in 1996 to more than 9% in 2006. This increase occurred especially after the adoption of more liberal economic policies; such as privatization of SOEs. Egypt became one of the most heavily concentrated countries with foreign firms in the MENA region. However, after 2006, the amount of FDI inflows to Egypt started to decline, due to political instability following the overthrow of the Mubarak regime. As a result, the volume of FDI flowed into Egypt declined dramatically, down to a negative value of -0.2% of GDP. However, after 2011, the trend of FDI inflows started to increase again, as a result of achieving some political stability.

Figure 3. Trend of FDI Inflow as percentage of GDP Egypt 1996-2017
Source: World Bank



Foreign Investment Laws in Egypt: Historical Path

Until 1952, the economy of Egypt was mostly organized as a "free market". The private sector had a dynamic role in the Egyptian economy with a contribution that reached up to 80% of GDP (Central Bank of Egypt). Foreign investments in Egypt were extremely focused on agriculture, especially on cotton cultivation. However, after World War II, the inward FDI in Egypt notably declined. In the period of 1952 to 1973, many dramatic changes occurred in the Egyptian political and economic environment, when the new government, which came into power after the 1952 revolution, delivered policies of nationalization and depended on the public sector as the primary driver of economic growth. Public sector's contribution increased to about 95% of GDP, and the government raised its spending to enhance the public infrastructure, including the essential services for electricity and railway transportation.

Later, during the period from 1973 to 1980, the Egyptian government started to apply more liberal economic policies, which mainly aimed to encourage the contribution of foreign capital in Egypt and tried to attract more FDI through enhancing the local business environment. This new economic vision included implementing new investment policies, such as Investment Law No.65, which allowed foreign investors to establish their projects in free trade zones. Additionally, Investment Law No.43 of 1974, declared a set of additional incentives to encourage foreign investments, including exemptions of income tax. For example, the government offered a 10-year income tax exemption for foreign investors doing business in the agriculture and industrial sectors. During the 1980s, the government signed a group of bilateral trade agreements with the USA, which provided additional conveniences for American investors. Furthermore, it allowed foreign investors to invest in certain strategic infrastructure projects and removed investment constraints through minimizing licensing procedures and requirements.

In the 1990s, many changes in the structure of the Egyptian economy occurred, starting with the launch the "Economic Reform and Structural Adjustment Program" (ERSAP), which essentially endeavored to achieve macroeconomic stability and to enhance the performance of the financial system. These procedures created a stable business environment, which was meant to attract foreign direct investment. During that period, the Egyptian government introduced Law No.1 of 1996 that allowed foreign firms to establish private ports. Added to that, Law No.72 expanded the incentives and exemptions to international companies that are operational in the tourism sector. Moreover, Law No.8 of 1998 gave foreign investors more incentives and benefits with clear procedures to solve problems faced by them (African Development Bank Report, 2000).

In the same context, the government launched an extensive privatization program, which led to the privatization of one-third of the assets of state-owned enterprises. The Egyptian investment law provided multiple types of fiscal incentives to foreign investors such as tax exemption on industrial and commercial activities, and reductions in the requirements of the business permits. In 2003, to attract more FDI into Egypt, the government introduced the Banking Law No.88, which guaranteed the right to remit income earned in Egypt and to repatriate capital. In 2004, the government created the Ministry of Investment (MOI) to promote the investment environment and coordinate between the capital market and the insurance supervisory authorities.

The Egyptian Ministry of Investment created the Investment Promotion Agency (IPA) to facilitate foreign investment activities. Until 2005, the government established about 40 industrial zones in different areas as well as 12 free trade zones in various cities. Enterprises located in these zones could benefit from different privileges such as exemptions on income tax and industrial tax. Moreover, in April 2006, the government reduced the tax rate on land from 14% to 10%. In 2007, the government applied a set of modifications in the investment zones system increasing the scope of sectors and enhancing private sector involvement in zone development and management (Egyptian Real Estate Taxation Authority, 2008).

Human Capital Development in Egypt

Egypt has one of the largest labor force among the Middle East and North African countries with a labor force of about 27 million, and with an annual increase of 700,000 new labor. According to the Central Agency for Public Mobilization and Statistics (CAPMAS), the rate of unemployment among Egyptian youth reached 26.5% in 2016. In terms of significant labor market challenges, one can list the rigidity of labor regulations and the low quality of education contributing to the gap between labor skills and work needs (Binzel and Assaad, 2009). The International Labor Organization (ILO) survey of 2014 showed that about 48% of the Egyptian labor force are working in positions that do not match their education, while around 9% of them are overqualified for their positions and earn less than their education level deserve (Barsoum, 2014).

Table 4 shows that in recent years the relative performance of education quality in Egypt dropped sharply from ranking 126 in 2009 to 141 in 2015. Additionally, the labor market in Egypt is facing several difficulties in terms of staff training, where its ranking declined from 96 in 2009 to 133 in 2017.

Inadequate infrastructure still represents a significant challenge regarding attracting FDI into Egypt. Bearing in mind that infrastructure investment has notably declined in the last 15 years, improving infrastructure in Egypt would require a combination of more substantial as well as efficient infrastructure investment. Improving the quality of infrastructure requires enhancing projects on transport networks, ports, logistics facilities, and electricity access. In 2014, to improve the investment environment, the

Table 4. Index of Education System Performance in Egypt

Indicator	2009 Rank (out of 134)	2011 Rank (out of 139)	2013 Rank (out of 144)	2015 Rank (out of 144)	2017 Rank (out of 137)
Quality of primary education	129	126	137	141	133
Quality of the educational system	126	131	139	141	130
Quality of management schools	116	122	137	144	124
Extent of staff training	96	73	129	142	116
Primary education enrollment (net rate, %)	63	73	59	46	33
Secondary education enrollment (gross rate, %)	65	90	101	81	84
Tertiary education enrollment (gross rate, %)	59	78	73	80	76
Source: Global Competitiveness Report (2009, 2011, 2013, 2015, 2017)					

government announced about 28 new investment projects within the transportation sector. These projects include the establishment of 5 new metro and tramlines, 3 road projects, 3 railway projects, and more than 15 maritime transport projects. Table 5 summarizes the performance of the Egyptian government in terms of infrastructure in recent years.

Infrastructure Development in Egypt

Table 5. The Index of Infrastructure Development in Egypt

Indicator	2009 Rank (out of 134)	2011 Rank (out of 139)	2013 Rank (out of 144)	2015 Rank (out of 144)	2017 Rank (out of 137)
Quality of overall infrastructure	57	68	88	125	73
Quality of roads	74	75	109	118	75
Quality of railroad infrastructure	54	65	52	78	50
Quality of port infrastructure	69	69	79	66	41
Quality of air transport infrastructure	52	39	54	60	42
Quality of electricity supply	53	53	82	121	63
Source: Global Competitiveness Report (2009, 2011, 2013, 2015, 2017)					

Main Investment Constraints in Egypt

In Egypt, the business environment still entails many barriers preventing economic and investment expansion, despite the government's attempts to reform. Table 6 presents data on global competitiveness indicators in Egypt, which point out that the business climate in Egypt is inefficient. Between 2009 and 2017, its rank dramatically dropped from 81 to 100. Reforms related to macroeconomic stability and

financial market development are still insufficient, bringing about lower ranking compared to most of the other Arab and African countries.

In 2013, according to the report published by the Heritage Foundation, focusing on economic freedom indicators, Egypt still takes a low status compared to most MENA countries (ranking 12 out 17 countries in the MENA region) and its overall score is below even the global average. This low ranking is mainly due to the weaknesses in the judicial system, protection of property rights, and insufficient eradication of corruption. Furthermore, excessive government bureaucracy, which involves some complications related to requirements of government regulation, slow down the time to obtain business licenses. Lengthy customs procedures are still among the significant issues hindering foreign investment in Egypt. The absence of a unified legal framework and frequent amendment of the laws leads to lower credibility and creates confusion. Furthermore, the Egyptian commercial legal system is known for its slow and complicated processes. For example, the average time to dispute resolution ranges between 3 to 5 years.

Table 6. Global Competitiveness Index with Main Business Climate Indicators for Egypt

Indicator	2009 Rank (out of 134)	2011 Rank (out of 139)	2013 Rank (out of 144)	2015 Rank (out of 144)	2017 Rank (out of 137)
Global Competitiveness Index	81	81	107	119	100
Institutional quality	52	57	96	100	64
Infrastructure development	60	64	83	100	71
Macroeconomic stability	125	129	138	141	132
Health and primary education	88	91	94	97	87
Market size	27	26	29	29	25
Financial market development	106	82	102	125	77
Source: ***Global Competitiveness Report (2009, 2011, 2013, 2015, 2017)***					

As another challenge, the instability and deterioration of macroeconomic indicators in the last decade represent one of the black holes that negatively affect the flow of FDI to Egypt. This includes a high inflation rate, rising government debt, a widening balance of payments deficit, as well as the erosion of the foreign exchange reserves and depreciated local currency.

Concerning the investment attractiveness of Egypt, political instability is one of the main factors that led to the deterioration of foreign investments, and indeed, the trust of investors would be at stake, with high uncertainty. According to the World Bank's report, after "January 25 Revolution" and anti-government protests in 2011, political stability dropped dramatically in Egypt. For example, the Egyptian political stability and absence of violence index ranked 189 among 203 countries in 2013, falling from 146th in 2008 ranking (Euromonitor International, 2014). As a result, there was a sharp decline in the FDI inflows to Egypt and all these indicators show that Egyptian policymakers still need to devote a lot of effort to improve the country's ability to attract more foreign investment.

LIBYA

Overview of the Libyan Economy

Libya has a population of 6.4 million according to 2017 census and a land surface of about 1,759,540 km2. It is ranked as the fourth largest country in Africa, but the desert covers most of its land surface. Size of the Libyan economy is relatively small, and it has ample natural resources including oil and gas. Libya has one of the highest per capita GDP in Africa, with US$8000, thanks to its oil resources. Oil industry creates revenues reaching 88.6% of the overall government revenues and accounts for 55% of the Libyan GDP. At the global level, Libya is ranked 8th largest, holding approximately 4.4% of oil reserves in the world. However, despite the abundant level of resources and relatively high per capita GDP, the Libyan economy is still in agony due to poverty and a high unemployment rate that reached 15%. Besides, the government has not been able to diversify the economy, where oil and gas industries dominating 96% of export earnings (World Bank, 2011).

Libya is still suffering from fluctuating FDI, as can be seen in Figure 4. The trend of FDI inflows to Libya has improved noticeably after 2003, after adopting more liberalized economic policies and the establishment of the Libya Investment Board (LIB). FDI inflows doubled from 1% as a percent of GDP in 2004 to 3.7% in 2006, reaching 8% in 2008. This outcome was the result of removing some investment restrictions and allowing foreign firms to open branches and offices in Libya. We want to note that, at the same time, it was a period of rapid global economic growth. Economic circumstances in Libya changed negatively in 2011 after a political and social outbreak, during when a large part of production facilities and infrastructure were vandalized, together with many disturbances in the banking system.

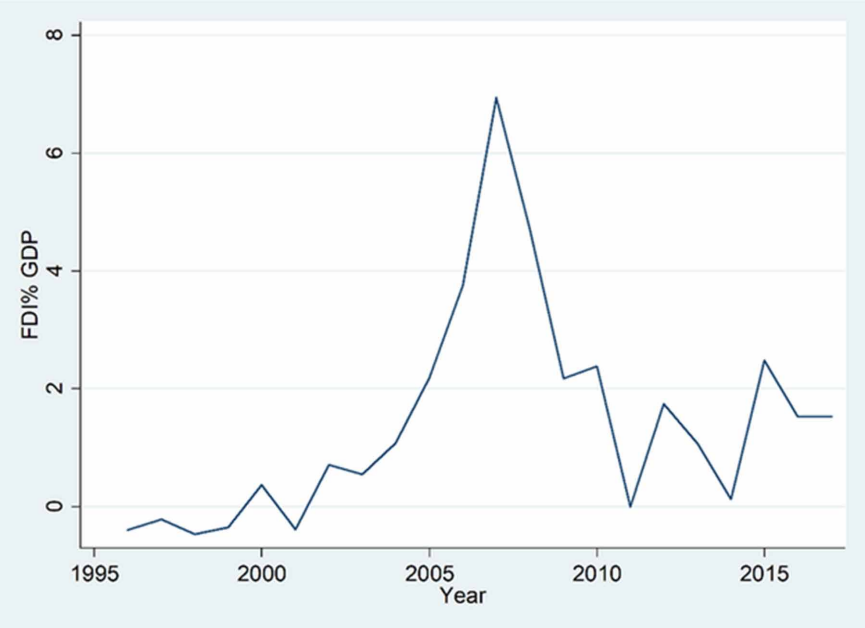
Foreign Investment Laws in Libya: Historical Path

Until the late 1950s, Libya was economically underdeveloped and there was almost no indication of economic progress (Abdulla, 2010). By the 1960s, the oil was discovered and became the backbone of the Libyan economy. Libyan government started to convert its economic interests to the oil sector and delivered some reforms to attract more foreign firms. In 1962, the government allowed international companies to invest in the oil and gas sector. Thus, during the period 1962-1968, The Libyan economy has made remarkable progress in terms of a volume of investment projects and job creation. In 1969, after the revolution and the regime change, the new government made several changes concerning economic policies and plans. The new government adopted the policy of nationalization of foreign shares in domestic banks and took over control in international firms. From 1970 to 1980, the government did not allow the private sector to do business and considered foreign investment as a synonym of colonial ambition. Consequently, the public sector gradually controlled more than 85% of the total investment in Libya (Shernanna and El-Fergani, 2007).

At the beginning of the 1980s, the major industrialized countries were in the midst of an acute economic recession, which caused a drop in oil demand, along with oil prices. That led Libya to cut its production to half and its economic indicators began to deteriorate. It was a period when the Libyan economy was suffering from the poor performance of the public investment projects, especially after the oil crisis. Additionally, public spending financed by state-owned banks was high, which led to a high level of inflation (Abdulla, 2010). Between 1985 and 1998, the Libyan government made several reforms and passed several laws aiming to encourage foreign investment and to enhance the investment climate. For

example, they issued Law No.9 of 1985, which allowed the local private enterprises to invest in different sectors. In 1989, the government started to implement privatization policy by issuing Law No.427, which led the transfer of the ownership of about 4845 firms in different sectors. From 1990 through 1998, the government made several changes aiming to regulate the ownership of public utilities, such as Law No.1 and Law No.300 of 1993, which are related to the development of the banking and monetary system. In 1998, Libya Investment Board (LIB) was created, which was a prominent milestone in the Libyan investment environment. The aim was to encourage FDI into the Libyan market and to diversify income sources, by increasing the contribution of different sectors in the economy. Furthermore, the government issued Law No.5 of 1998, which provided further incentives to encourage FDI. From 1998 to 2003, the government issued some reforms to support the improvement of the investment environment. These reforms include enacting Law No.21 of 2000, which focused on enhancing the legislation system. From 2004 to 2010, the business environment in Libya changed, providing many facilitations and incentives for investors. In this context, the government issued Law No.6 of 2004 to organize the working mechanism of trade agencies. However, the most prominent government reforms came about with Law No.3 and No.8 of 2005 that allowed foreign firms to open branches and offices in Libya. In addition to those, Law No.108 of 2005 removed more of the investment restrictions, allowing foreign firms to invest in any sector, and to merge with local firms.

Figure 4. Trend of FDI inflow as percentage of GDP Libya 1996-2017
Source: World Bank



Regarding investment encouragement procedures, the Libyan government offered an incentive package to foreign firms including tariff reductions, five-year tax break, and income tax exemption for up to 5 years. Moreover, with the Law No.215 of 2006, the government established the Zuwara Free Trade Zone (ZFTZ), and Misrata Free Trade Zone (MFTZ) and encouraged private sector involvement in the

development and management of these free trade zones. In 2010, the Libyan government further liberalized its economy, allowing foreign firms to extract the natural resources and to invest in all sectors, oil and non-oil.

Human Capital Development in Libya

Based on World Bank data, the average unemployment rate in Libya in the period of 2005 to 2011 reached 18% of the total labor force. Libyan performance related to the quality of the educational system can be described as fragile, as can be seen in Table 7, where it ranked at the bottom of 144 countries (World Economic Forum Global Competitiveness Report, 2015). According to Libyan laws, at least 20% of workers in foreign companies must be Libyan citizens, and the companies must provide training to an additional number of Libyan citizens every year. In this regard, the Libya Investment Climate Survey of 2011 indicated that about 30% of foreign firms working in Libya face difficulties in finding skilled labor.

Table 7. Index of Education System Performance in Libya

Indicator	2009 Rank (out of 134)	2011 Rank (out of 139)	2013 Rank (out of 144)	2015 Rank (out of 144)
Quality of primary education	100	128	134	128
Quality of the educational system	121	138	142	144
Quality of management schools	130	137	144	142
The extent of staff training	114	110	140	143
Secondary education enrollment (gross rate, %)	49	48	11	20
Tertiary education enrollment (gross rate, %)	32	37	46	41
Source: Global Competitiveness Report (2009, 2011, 2013, 2015)				

Infrastructure Development in Libya

Libyan government expended its road network in 2000 to reach around 83,200 kilometers of roads and targeting to improve the airport and seaport networks, together with widening the railway network by connecting central cities to the international airports. However, these plans have not been fully implemented for various reasons, as can be seen in Table 8. Libya faces serious challenges of infrastructure development due to political instability and civil wars that took down a great deal out of Libyan infrastructure.

Main Investment Constraints in Libya

Issues related to the business environment still pose a barrier in front of economic and investment expansion due to political instability, poor infrastructure development, ineffective governance, and corruption. According to global competitiveness reports, Libya's business environment has very poor rankings and is suffering in terms of political freedom, infrastructure development, and financial market development, as can be seen in Table 9.

Table 8. Infrastructure Development Index for Libya

Indicator	2009 Rank (out of 134)	2011 Rank (out of 139)	2013 Rank (out of 144)	2015 Rank (out of 144)
Quality of overall infrastructure	115	115	128	144
Quality of roads	85	97	102	142
Quality of port infrastructure	110	116	112	131
Quality of air transport infrastructure	126	133	129	139
Quality of electricity supply	71	81	85	116
Source: Global Competitiveness Report (2009, 2011, 2013, 2015)				

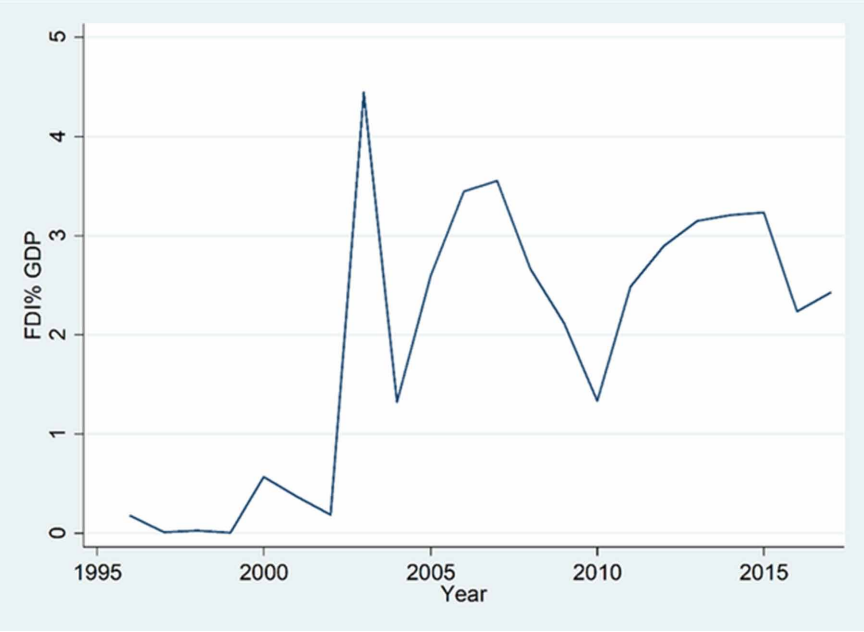
Table 9. Global Competitiveness Index with Main Business Climate Indicators for Libya

Indicator	2009 Rank (out of 134)	2011 Rank (out of 139)	2013 Rank (out of 144)	2015 Rank (out of 144)
Global Competitiveness Index	**91**	**100**	**113**	**126**
Institutional quality	**65**	**88**	**81**	**142**
Infrastructure development	**112**	**95**	**88**	**113**
Macroeconomic stability	**6**	**7**	**73**	**41**
Health and primary education	**103**	**115**	**121**	**119**
Market size	**77**	**69**	**102**	**85**
Financial market development	**131**	**130**	**140**	**144**
Source: ***Global Competitiveness Report (2009, 2011, 2013, 2015)***				

The business environment in Libya is still shuffling despite some reform efforts. The global competitiveness index points out that, in the last seven years, there is a considerable decline (from 91 in 2009 to 126 in 2015). Concerning the institutional quality, Libya ranked 142 among 144 countries, as of 2015. Similarly, according to the report of Heritage Foundation published in 2013, in terms of economic freedom indexes, Libya is still under-classified compared to most Middle Eastern and North African countries. That is likely to be caused by the internal conflict, inefficient business regulation, and widespread corruption that exacerbates the situation.

In Libya, political instability is one of the major factors that led to deteriorating FDI. Regarding Libyan political stability indicators, the World Bank's report points out that, after the revolt against the government in 2011, the political stability indicators deteriorated dramatically. It was a time when the civil disturbances became the dominant feature of the society, and different armed groups were attempting to take over economic resources and geographical regions. Consequently, the foreign firms' willingness to invest in Libya decline (Investment Climate Statement Report, 2014). All these imply that Libya has a long road to walk, for its attempts of attracting a larger of the volume of FDI and economic diversification to be successful.

Figure 5. Trend of FDI inflow as percentage of GDP Morocco 1996-2017
Source: World Bank



MOROCCO

Overview of the Moroccan Economy

Moroccan has a population of 33.5 million and a land surface of 710,850 km2, with 3,500 km coastline. As of 2017, the Moroccan GDP reached US$109 billion, with a GDP per capita of US$3,290 and the unemployment rate is 9.2% of the total labor force.

Moroccan economy has certain characteristics that distinguish it from other North African countries. It is the largest exporter of phosphates, possessing about two-thirds of global phosphates reserves. However, it is having a shortage of local energy sources. Morocco's economic structure relies on various sectors, such as agriculture, tourism, manufacturing, and communication. As shown in Figure 5, the volume of FDI inflows into Morocco has fluctuated notably from 1996 to 2000. However, after the adoption of more liberal economic policies and regulatory changes, the level of FDI inflows jumped from 0.5% of GDP in 2000 to reach 4.3% in 2004. In the period between 2004 and 2007, as a result of economic reforms, Morocco became one of the most densely concentrated countries with foreign firms. After 2011, despite regional political atrocities, the Moroccan government succeeded in bringing a higher amount of FDI to the country.

Foreign Investment Laws in Morocco: Historical Path

During the mid-1970s, the discovery of phosphate led the Moroccan government to realize an expansion in public investments and government expenditures. However, the unexpected drop in phosphate prices and the global oil crisis during the late 1970s aggravated the economic crisis in Morocco. The volume

of public debt increased from US$2 billion in 1975 to US$11 billion in 1983, along with an extreme decline in the productivity of public investments (World Bank, 1988).

As a response, the Moroccan government made several reforms, to augment the stability of the macroeconomic environment by promoting investment conditions and reducing trade restrictions. Starting in 1992, the government also launched a privatization policy, which led to the sale of more than half of the state-owned enterprises, especially in sectors such as tourism, banking, and communication. Additionally, Investment Laws No.15 and No.16 of 1995 introduced a set of incentives to encourage foreign investments, including conveniences for investors who use foreign capital in their investment and Law No.1 of 1995 indicated the establishment of the export processing zones, which provided some exemptions from customs regulations and foreign exchange control. In the same year, the government merged the activities of the Investment Promotion Agency with the Agency for Investment Development and Export.

Between 1996 and 2005, the government issued several regulations permitting the establishment of an interbank market to facilitate foreign exchange operations. Furthermore, the government adopted the Competition Law No.6 of 1999, which created the Competition Council in order to guarantee fair pricing, improve corporate governance, and encourage transparency. During the same period, Morocco also enhanced the legal environment through the adoption of new laws to protect investors. In 2004, the government passed on some amendments to the legislation system concerning the protection of property rights. From 2006 through 2014, the Moroccan government applied a series of strategic plans that aimed to improve the performance of the business environment. For instance, in 2009, the government passed the national policy for industrial development, which focused on promoting the export-oriented economic sectors and on organizing the investment environment to attract multinational companies.

Table 10. Index of Education system performance in Morocco

Indicator	2009 Rank (out of 134)	2011 Rank (out of 139)	2013 Rank (out of 144)	2015 Rank (out of 144)	2017 Rank (out of 137)
Quality of primary education	85	100	108	105	119
Quality of the educational system	100	105	105	102	120
Quality of management schools	63	49	47	54	86
Extent of staff training	79	87	75	106	117
Primary education enrollment (net rate, %)	98	99	48	39	26
Secondary education enrollment (gross rate, %)	107	110	113	105	100
Tertiary education enrollment (gross rate, %)	99	102	102	100	85
Source: Global Competitiveness Report (2009, 2011, 2013, 2015, 2017)					

Human Capital Development in Morocco

According to the IMF report of 2014, the rate of unemployment among Moroccan youth reached 9.2%, while the people aged between 15 and 29 representing more than 30% of Morocco's total population (World Bank report of 2012). However, similar to the case in other North African countries, the irony

is the existence of large numbers of graduates who are unable to find jobs appropriate to their qualifications, while firms complain of skill gaps due to the divide between labor skills and job requirements.

As can be seen in Table 10, the global competitiveness report indicates that Morocco is suffering from the low quality of the educational system, particularly at the primary level. From 2009 to 2017, there was no improvement in the quality of the educational system and the labor market seems to be facing difficulties in terms of staff training, where its rank declining from 79 in 2009 down to 117 in 2017.

Table 11. Infrastructure development index in Morocco

Indicator	2009 Rank (out of 134)	2011 Rank (out of 139)	2013 Rank (out of 144)	2015 Rank (out of 144)	2017 Rank (out of 137)
Quality of overall infrastructure	74	71	52	55	42
Quality of roads	73	88	70	51	43
Quality of railroad infrastructure	111	37	36	34	38
Quality of port infrastructure	86	62	49	43	32
Quality of air transport infrastructure	91	67	52	51	54
Quality of electricity supply	103	66	56	48	46
Source: Global Competitiveness Report (2009, 2011, 2013, 2015, 2017)					

Infrastructure Development in Morocco

The Moroccan infrastructure, compared to other African and Arab counties, is relatively good. During the last two decades, the government carried out many infrastructure development projects that mainly revolved around transportation networks, maritime transport, and communication. As Table 11 shows, Moroccan infrastructure gradually improved from 2009 to 2017; its rank in 2009 was 74 out of 134, while in 2015, it reached to 55 out of 144 countries. Similarly, the Moroccan government achieved great success regarding the improvement of the railroad infrastructure, where its rank increased from 111 out of 134 countries in 2009 to reach 38 out of 137 countries in 2017.

Table 12. Global Competitiveness Index with Main Business Climate Indicators for Morocco

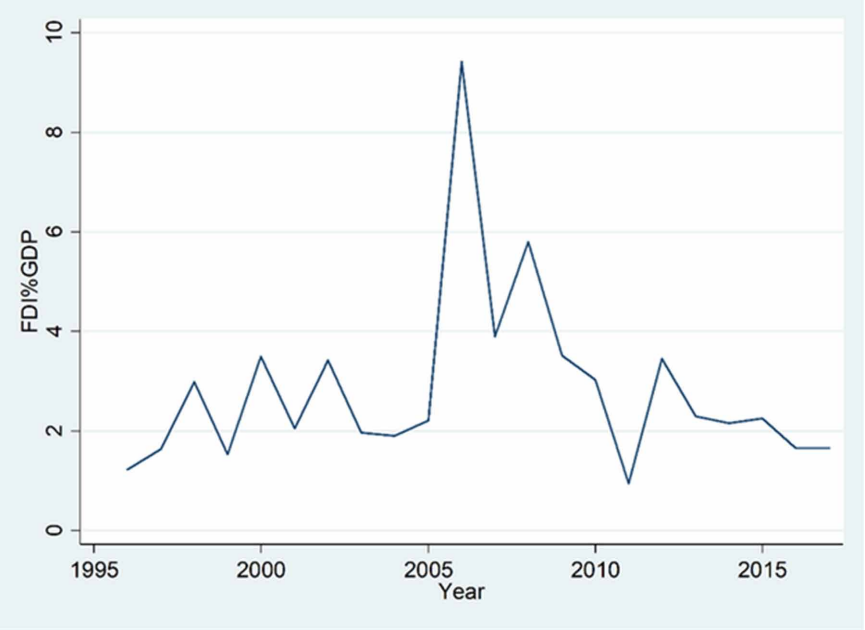
Indicator	2009 Rank (out of 134)	2011 Rank (out of 139)	2013 Rank (out of 144)	2015 Rank (out of 144)	2017 Rank (out of 137)
Global Competitiveness Index	73	75	70	72	71
Institutional quality	67	66	54	49	49
Infrastructure development	70	71	61	55	54
Macroeconomic stability	84	31	70	66	55
Health and primary education	71	94	81	76	81
Market size	57	57	57	56	53
Financial market development	93	74	61	69	72
Source: ***Global Competitiveness Report (2009, 2011, 2013, 2015, 2017)***					

Morocco has implemented several investment projects to improve the transportation network by constructing 60,000 km of roads. However, Morocco is still having traffic congestion and striving to solve the shortage of parking lots, especially in major cities. Morocco owns a broad port infrastructure with 11 ports designed and constructed by international standards. Regarding air transportation, Morocco has a network of 15 airports, with 5 of them being international airports, such as the ones in Marrakech and Casablanca.

Main Investment Constraints in Morocco

In Morocco, the business environment conditions are notably improving despite some challenges in the areas of procedures for starting a business, investor protection, and access to finance (Doing Business Report, 2014). Regarding Moroccan performance in terms of global competitiveness, as Table 12 shows, Morocco is doing relatively good and its ranking is stable. For example, its macroeconomic stability index ranked 84 out of 144 countries in 2009 while it ranked 55 among 137 countries in 2017. Morocco has a relatively high ranking also in terms of institutional quality.

Figure 6. Trend of FDI Inflow as a percentage of GDP Tunisia 1996-2017
Source: World Bank



However, Heritage Foundation report of 2013 illustrated that, in terms of economic freedom, Morocco still lags compared to most of the Middle Eastern and North African countries, ranking 10 out of 17 in MENA region and its score is below the global and regional average. As the most significant investment constraints, the same study pointed out administrative and legal hurdles, which scare away FDI from Morocco. According to the World Economic Forum's Global Competitiveness Reports, corruption appears as one of the most problematic factors disturbing doing business in Morocco. Ad-

ditionally, the investment environment is subject to excessive government bureaucracy, which involves some complications related to government regulation, slow process of obtaining business licenses, and cumbersome customs procedures. For instance, starting a new business takes about an average of 12 days, with over 100 days to complete licensing requirements (Doing Business Report, 2014). In terms of legal issues, despite all the efforts, the court system is highly inefficient, where enforcing a contract necessitates over forty procedures, and the average time to resolve a dispute is more than two years (Doing Business Report, 2014). These problems in the legal system are mostly due to the limited number of judges compared to a large number of pending cases. In addition, the tax evasion remains as another serious problem, reflecting corruption and bribery. All these obstacles increase the business-related risks for the Moroccan private sector.

TUNISIA

Overview of the Tunisian Economy

Tunisia is the smallest country in the North Africa region, with a total land surface of 165,000 km2 and a population of about 11.5 million. Tunisian GDP reached US$42 billion in 2016, with a GDP per capita of US$4,235. The unemployment rate attained 15.3% of the total labor force as of 2017.

Since the early 2000s, FDI played a prominent role in the Tunisian economy. As Figure 6 shows, there are notable fluctuations in the volume of FDI inflows to Tunisia between 1996 to 2005. With the adoption of more liberal economic policies and regulatory changes, the amount of FDI inflows jumped from 2% of GDP in 2001 to reach 9.4% in 2006. However, after 2006, the amount of FDI inflows started to decline due to economic problems and political instability. Currently, MNCs in Tunisia generates one-third of the exports and over 15% of the total number of jobs.

Foreign Investment Laws in Tunisia: Historical Path

In 1956, Tunisia achieved its independence, and the French intervention in Tunisia reduced gradually. After its independence, Tunisia had to face the challenge of rebuilding its state institutions. Until the early 1970s, the Tunisian economy adopted import substitution policy and relied mainly on agriculture and food processing. By the second half of the 1970s, the government started to implement several reforms, which aimed to encourage exports and to enhance the contribution of the private sector in the economy. In this regard, the Tunisian government adopted a semi-liberalization policy, with new laws and institutions that would facilitate the work of the private sector. For example, the Investment Law No.38 of 1972 offered special incentives to the manufacturing sector through the provision of a partial tax exemption for as long as 20 years. Furthermore, the full tax exemption was provided for profits and customs duties on imported capital goods and raw materials.

In 1973, the Tunisian government established the Industry Promotion Agency (API) to enhance the business environment by providing administrative and legal assistance to firms operating in Tunisian markets. In the same period, the Export Promotion Center was created to provide business and investment information to importers in foreign countries. However, the Tunisian economy has acute problems of large foreign debt and instability in production and employment. In 1985, with an attempt to recover from these economic atrocities, the government adopted the Economic Recovery and Structural Ad-

justment Program (ERSAP), which provided several privileges for investment and international trade, through reducing tariff rates, easing quantitative constraints on imports, and cutting of personal income taxes. In 1986, the government decided to move toward privatization and reduce the Tunisian economy's dependence on public investment. Consequently, the macroeconomic environment gained stability, the inflation rate went down, and the government debt fell. After 1987, the political environment became more stable which led to further improvements in the investment environment and business conditions.

Table 13. Index of Education System Performance in Tunisia

Indicator	2009 Rank (out of 134)	2011 Rank (out of 139)	2015 Rank (out of 144)	2017 Rank (out of 137)
Quality of primary education	21	22	72	83
Quality of the educational system	17	20	68	103
Quality of management schools	17	22	61	83
The extent of staff training	27	18	99	106
Primary education enrollment (net rate, %)	45	33	13	24
Secondary education enrollment (gross rate, %)	74	53	67	81
Tertiary education enrollment (gross rate, %)	67	69	73	79
Source: Global Competitiveness Report (2009, 2011, 2015, 2017)				

At the beginning of 1990s, the Tunisian government made several reforms to improve the quality of the judicial system in order to encourage foreign investors, especially into the sectors that provide higher employment and export orientation. During the 2000s, the government focused mostly on improving the economic policies and taxation system and tried to enhance the competitiveness of the Tunisian economy in international markets. Moreover, it adopted a flexible exchange rate policy emphasizing financial liberalization and easing the international transactions of domestic companies. In 2002, the government adopted a policy of providing incentives (such as tax exemption for profits) to investors and firms that operate in services and the manufacturing industries. The establishment of regional investment zones encouraged investment in particular industries. However, despite all these efforts, the Tunisian economy started to witness high unemployment rates and slow economic growth after 2006, which led the regime to be toppled down in 2011. In the aftermath of these political and economic instabilities, the majority of the economic indicators seriously deteriorated.

Human Capital Development in Tunisia

Regarding education quality, as shown in Table 13, the Global Competitiveness Report indicates that the performance of Tunisia is relatively good. Nevertheless, due to the political instability in 2011, Tunisian rank of the quality of the educational system went down, dropping from the 17 out of 134 in 2009 down to 103 out of 137 in 2017. Moreover, the labor market in Tunisia is facing difficulties concerning staff training, with a ranking of 106 out of 137 countries as of 2017. Another challenge is that the rate of unemployment among Tunisian youth was about 15.3% as of2015.

Infrastructure Development in Tunisia

Until 2011, Tunisian infrastructure, compared to other African and Arab counties, was relatively good, where the government carried out many infrastructure developments projects that mainly focused on transportation networks, maritime transport, and communication. However, as Table 14 shows, the trend of Tunisian government performance in infrastructure quality deteriorated gradually. Its rank of overall infrastructure quality fell down from 30 out of 134 in 2009 to 86 out of 137 countries in 2017. Similarly, the rank of the quality of railroad infrastructure went down from 22 out of 134 countries in 2009 to 67 out of 137 countries in 2017.

Table 14. The index of Infrastructure Development in Tunisia

Indicator	2009 Rank (out of 134)	2011 Rank (out of 139)	2015 Rank (out of 144)	2017 Rank (out of 137)
Quality of overall infrastructure	33	30	83	86
Quality of roads	39	37	83	84
Quality of railroad infrastructure	22	29	48	67
Quality of port infrastructure	38	41	83	101
Quality of air transport infrastructure	29	38	77	98
Quality of electricity supply	33	35	65	60
Source: Global Competitiveness Report (2009, 2011, 2015, 2017)				

Main Investment Constraints in Tunisia

In Tunisia, the business environment conditions are improving slowly mostly due to political instability. There are serious challenges related to procedures starting a business, investor protection, and access to finance. According to Doing Business report of 2015, Tunisia rank 74 out of 189 countries, where establish a new business takes about 10 days on average, with 12 required procedures. As reported in Table 15, global competitiveness indicators show that Tunisia is suffering in terms of macroeconomic stability and development of the financial market, especially after the political turmoil that took place in 2011.

Table 15. Global Competitiveness Index with Main Business Climate Indicators for Tunisia

Indicator	2009 Rank (out of 134)	2011 Rank (out of 139)	2015 Rank (out of 144)	2017 Rank (out of 137)
Global Competitiveness Index	36	32	87	95
Institutional quality	22	23	81	80
Infrastructure development	37	46	79	82
Macroeconomic stability	75	38	111	109
Health and primary education	27	31	53	58
Market size	62	67	64	69
Financial market development	77	58	117	110
Source: *Global Competitiveness Report (2009, 2011, 2015, 2017)*				

DISCUSSION AND CONCLUSION

This study summarizes the main challenges of the business environment in North African countries. Major problems of each of the countries in the region are analyzed and discussed in detail. Most important problems, which are common across all five countries in the region are persistent political instability, lack of technological readiness, inadequate regulatory and institutional framework, and high corruption and bureaucracy, which make the economic environment of the North African countries unattractive for FDI, despite its advantageous geographic location.

Factors such as political stability, efficient regulatory framework and proficient institutions (legal and economic), well-educated and trained labor force, developed financial system, high-quality infrastructure are necessary preconditions not only in attracting FDI but also in achieving positive impact of FDI on the host country's economic and social development.

Foreign capital, both in the form of direct investment (FDI) and portfolio investment is a major source of funds used in investment, which is highly crucial for increasing the productive capacity, especially in capital-scarce developing countries. By increasing the availability of funds for investment, FDI can help to create new jobs and hence may aid solving the problems of unemployment and poverty, which are prevalent in almost all developing regions of the world.

Moreover, FDI can promote economic development by introducing advanced production technologies, managerial skills, and innovative ideas, in addition to its obvious contribution to the scarcity of capital. Hence, FDI can serve as an important channel in the transfer and implementation of better technologies and ideas produced elsewhere. FDI can also help to increase the export capacity of the host country if it is directed towards the industries in which the host country has a comparative advantage.

However, the contributions of FDI is highly dependent on the social, political and economic conditions in the host country. A more developed institutional framework and a higher human capital of the recipient country significantly contributes to the potential of technological transmission associated with FDI. In other words, these type of characteristics of the economic environment determines the technology absorption capacity of the host country. Technology transfer, through FDI or international trade, is possible only if the human capital of the labor force is above a certain level, which is directly related with, of course, the quality of the education system. Another equally important factor is the quality of the institutional framework, which assure the efficient functioning of both the goods & services markets, as well as the financial system. Moreover, legal and regulatory frameworks are crucial, in protecting property rights and also in preventing and solving commercial conflicts, which are vital factors affecting investor confidence.

To conclude our analysis, we want to emphasize that, as it is the case in many other developing countries, economic and political disturbances and institutional inefficiencies hinder the potential of economic growth in North African countries. Thus, governments of North African countries need to make substantial reforms to promote the investment environment and hence achieve economic and social progress.

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Chapter 26
Adverse Effects and Intangible Costs for American Expatriates in Russia

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ABSTRACT

Expatriates of U.S.-based multi-national companies (MNCs) on overseas assignments face unique adjustment and job-performance issues that have affected employer operations, resulting in economic and financial loss, and low morale. The poor adjustment of Americans in Russia is generally due to the type of job, type of position, and prior-international experience. This chapter addresses how expatriate adjustments and job-performances remain pivotal elements for success or failure in overseas assignments.

INTRODUCTION

Expatriates of U.S.-based multi-national companies (MNCs) Americans) on overseas assignments face unique adjustment and job-performance issues that have affected employer operations, resulting in economic and financial loss, and low morale. The poor adjustment of Americans in Russia is generally due to the type of job, type of position, and prior-international experience. This chapter addresses how expatriate adjustments and job-performances remain pivotal elements for success or failure in overseas assignments (Green, 2012; Kolancian, 2012; Peltokorpi, 2008; Peltokorpi & Froese, 2012; Wood, 2010).

When expatriates are dispatched to international assignments, the process of adjusting to a new work environment becomes increasingly complicated due to a host of work-related and non-work-related factors (Bhatti, Battour, & Ismail, 2013; English, 2015; Kolancian, 2012; Koveshnikov, Barner-Rasmussen, Ehrnrooth, & Mäkelä, 2012; Pinto, Cabral-Cardoso, & Werther, 2012; Wood, 2010). Peltokorpi and Froese (2012) observed that cross-cultural adjustment (adjustment) is a process that expatriates may go through to make themselves more familiar with their surroundings in the host country. Expatriates on international assignments not only are exposed to a new group of coworkers, supervisors and underlings (Froese & Peltokorpi, 2011; Varma, Pichler, Budhwar, & Kupferer, 2012) but must also adjust to new

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living arrangements, modes of transportation, food, social circles, language and communication, and the overall cultural environment (Bhatti et al., 2013; English, 2015). Their inadequate awareness of adjustment issues when working in host countries have resulted in close to an 80% failure rate in adjusting in host countries (Peltokorpi, 2008) and/or early cancellation of employment contracts (Kolancian, 2012). Moreover, if other family members accompany the expatriates, similar circumstances face the rest of the family, which may affect family dynamics if the adjustment process experience is not the same for all members (Alshammari, 2012; Qin & Baruch, 2012). Such cross-cultural issues are critical to expatriates' work and non-work adjustment and performance (Wood, 2010).

Researchers have reported that in the age of globalization, the United States (U.S.)-based American MNCs will be able to increase profits if they develop a workforce that is flexible and able to perform well in different cultural and economic environments (Freeman, & Olson-Buchanan, 2013; Kolancian, 2012). Russia has also experienced its share of the globalization that includes but not limited to shortage of labor and tight financing (Dolgopiatova, 2009; Gerasimenko, 2012). The shortage of labor occurred because of the influx of MNCs from developed and developing countries entering Russia's market and creating new jobs (Dolgopiatova, 2009). Gerasimenko (2012) explained that Russia had planned to initiate certain domestic modernizations to implement starting in 2008, funded by revenues from its natural resources. The plans were put on hold because of the global financial crisis and drop in oil prices (Gerasimenko, 2012). After almost 18 years of negotiations, in August 2012, Russia joined the World Trade Organization. It had first applied to become a member of the World Trade Organization in 1993 (Brightbill, 2012). As part of its accession application Russia lowered its import duties and granted other countries access to its markets (Gerasimenko, 2012). As part of its globalization expansion strategies, Russia is modernizing its industries and social system, which requires importing goods and services (Aganbegian, 2012; Gerasimenko, 2012). From its current starting point, Russia can be among the world's developed countries with respect to the basic economic and social system in about 20 years (Aganbegian, 2012). This is another strong indication that Russia might be a potential lucrative market for American companies. The chapter intends to address how expatriate adjustments and job-performances remain pivotal elements for success or failure in overseas assignments (Green, 2012; Kolancian, 2012; Peltokorpi, 2008; Peltokorpi & Froese, 2012; Wood, 2010).

BACKGROUND

Globalization makes it possible to develop new markets, raise financial resources, lower production costs, and internationalize businesses (Dolgopiatova, 2009; Wood, 2010). American companies should create the next generation workforce that can adjust and perform in Russia. Creating such a workforce requires investment in specific programs and services to assist expatriates who are assigned to work abroad to adjust in host countries (Kolancian, 2012; Wood, 2010). This is consistent with the findings of other researchers advocating the importance of expatriates' adjustment and performance. For example, unfamiliarity with Japan's culture and/or poor command of the language caused poor adjustment and performance, resulting in an 80% attrition rate by MNCs' expatriates (Peltokorpi, 2008). English (2015) explained that only language skill was not sufficient to adjust well in South Korea. The researcher found that there were other complementing elements/skills to language that helped expatriates to adjust. These skills were verbal and non-verbal coping skills, foreign consumer cultural adapt, and communicative approach-avoidance by Koreans. The adjustment may include but not be limited to genuine respect for

expatriates' sensitivity and interest in host countries' cultures, customs, respect for host country nationals' (HCNs) capabilities, and intellect (Okoro, 2012; Ramalu, Rose, Kumar & Uli, 2010a; Ramalu, Wei & Rose, 2011). Ramalu et al. (2011) observed that if expatriates do not truly adjust to different cultures, it is likely that there will be an adverse impact on HCNs' acceptance of expatriates and expatriates' adjustments.

Russia is a favorable destination for international assignments (Kittler et al., 2011; Wagner, & Vormbusch, 2010) and has attracted thousands of American expatriates employed by over 500 hundred American companies who live and work in Russia (The American Chamber of Commerce in Russia [ACCR], 2015). Varma et al. (2012) and Alshammari (2012) found that familiarity with other cultures derived from prior-international experience might have an effect on the level of preparedness of expatriates to adjust to new work environments in a foreign location, and factors such as the type of job and type of position were reported as important elements in adjustment and performance (Alshammari, 2012; Bashir, 2012; Kolancian, 2012; Peltokorpi, 2008). The adjustment process may vary from one country to another, not only because of cultural differences but also because of political issues. For example, there are not only vast cultural differences between Russia and America (Hofstede, 2009), but also the rising political tension between the two countries has added a new dimension to the existing differences and challenges (Barnes, 2014; Collina, 2014; Morley, 2014).

The U.S. market relative to Russia's market is mature (Albaity, 2012), and the Coalition for U.S.-Russia Trade (2012) beleives that Russia's market holds long-term opportunities for American companies. In 2003, Russia had already been named as the main driving force for the mergers and acquisitions (M&A) market in Central and Eastern Europe (Radygin, 2010). American companies may develop and gain more market share in Russia through exports and/or by merger and acquisition (The Coalition for U.S.-Russia Trade, 2012); however, for American companies to explore and/or exploit such opportunities, they may need to pay more attention to interventions that may assist their employees with their cross-cultural adjustments and performances (Peltokorpi, 2008; Ramalu et al., 2011; Wu & Ang, 2011; Zhang, 2012).

INTANGIBLE COSTS FOR AMERICAN EXPATRIATES IN RUSSIA

Adjusting to host countries' customs and traditions can be a challenging experience for expatriates as highlighted in an extant study by Black (1988) of American expatriates who lived and worked in Japan. Black's (1988) correlational quantitative study observed employers should be mindful of the potential negative effects of employees' not having a clear understanding of their roles when dispatched to international assignments. In a quantitative study of in a study of American expatriates who lived and worked in Japan, the author found a significant relationship between expatriate employment role ambiguity or role discretion and prior-international experience on adjustment and performance. Other findings revealed ambiguity in expatriate roles negatively affected adjustment and performance, and the opposite was also found true (Yedgarian, 2016). Yet, expatriates who were satisfied with their role, adjusted and performed well (Black, 1988).

For many years, scholars reported adjustment as a one-dimensional occurrence (Gullahorn & Gullahorn, 1962; Oberg, 1960). Peltokorpi (2008) conducted a correlational quantitative study that examined the impact of individual, contextual, work, and organizational factors of expatriates living and working in Japan. The study examined elements that influenced expatriates' adjustment related to personal and professional activities and job satisfaction. The research findings revealed that proficiency in the

Japanese language had the most influence on expatriates' work and non-work adjustment, followed by expatriates' personality traits. Another finding was the strong relationship between expatriates' gender and adjustment, which contrary to previous findings (Napier & Taylor, 1995/2002) suggested that it does not influence either type of adjustment. To address the threats to validity, the researcher differentiated between self-initiated and corporate expatriates. The results of the study could be valuable to MNCs' support and training of their expatriates, both for work and for non-work-related adjustment. There have been historical contradictory views on the concept of the relationship between adjustment and performance, which may be partly due to the lack of credible and efficient multinational employee management systems (Black & Mendenhall, 1990; Harvey, 2009).

A qualitative study was conducted by Kraimer, Shaffer, and Bolino (2009) on the influence of expatriate and repatriate experiences on career advancement and repatriate retention. The study revealed that organizational career advancement supports positively impacted expatriates' adjustment and performance and repatriates' retention. The study also showed that lack of adjustment and performance of MNCs' employees also adversely impacted MNCs' reputation as reliable institutions to do future business with (Kraimer, Shaffer & Bolino, 2009). Because of this potentially-damaging consequence, MNCs' human resource managers sought to improve their hiring and selection process to help them predict which employees would adjust well when living and working abroad (Kraimer et al., 2009). The study also revealed that it was a common belief among employees not on overseas assignments that the failure of an employee working overseas was the failure of the organization is not providing the right interventions and support. Kraimer et al., (2009) stated that, the home employees also saw that premature repatriation in some cases had resulted in substandard reintegration of the returning employees, e.g., he/she had been assigned to less important positions with reduced salaries and benefits. The authors argued that the negative perception that formed in their colleagues' minds who have not worked abroad may also affect those that do.

Low percentage interventions provided by MNCs coupled with negative perception maybe interpreted as organizational disinterest in employees' well-being and may hinder employees' heightened sense of commitment preventing them to venture to work abroad (Kraimer et al., 2009). The researchers (Kraimer et al., 2009) also stated that MNCs should implement wide-ranging interventions. The interventions should include cross-cultural training, housing relocation, membership in social clubs, relaxation vacation leave, schooling for children, spousal employment, mentoring, career planning, compensation with additional perks, repatriation, and reintegration support. The author (Kraimer et al., 2009) acknowledged that there were employees who despite all the challenges completed their international assignments. However, because of non-conducive circumstances, these employees did not adjust well and often under-performed at their jobs.

Adverse Effects of Expatriate Morale

U.S. expatriates of U.S.-based MNCs on overseas assignment face unique adjustment and job-performance issues that have been shown to affect employer operations, which have resulted in individual and institutional economic and financial loss and expatriate low morale (Green, 2012; Kolancian, 2012; Peltokorpi, 2008; Peltokorpi & Froese, 2012; Wood, 2010). The problem was the low employee morale exhibited by U.S. expatriates, which contributed to employee underperformance and even early repatriation, resulting in multidimensional adverse impacts. The negative effects on family nucleus included but not limited to dysfunctions in the family, disadvantaging children by the sudden move from one country to

home country or another country, disruptions in family social life, unintended non-recoupable negative economic and financial impacts. The adverse effects on institutions included economic and financial loss, sometimes irreparable damage of reputation in host countries as unreliable institutions to complete a project on time, immense challenges for human resources to recruit and ready replacements (Bashir, 2012; Kolancian, 2012).

Russia is a favorable destination for international assignments (Kittler et al., 2011; Wagner, & Vormbusch, 2010) and has attracted thousands of American expatriates employed by over 500 hundred American companies who live and work in Russia (The American Chamber of Commerce in Russia [ACCR], 2015). Specific challenges have been shown for the poor adjustment for expatriates on overseas assignments in Russia, which had been reported in the past research to vary by type of job and type of position (Kolancian, 2012; Kraimer, Shaffer, & Bolino, 2009; Peltokorpi, 2008; Varma, Pichler, & Budhwar, 2011a; Varma, Budhwar, & Pichler, 2011b). Kittler, Rygl, Mackinnon, and Wiedemann (2011), and Kolancian (2012) noted that U.S. expatriates on international assignments satisfied with their jobs and had reasonable awareness on social and globalization issues were less likely to terminate employment. In addition, Varma et al. (2012) and Alshammari (2012) found familiarity with other cultures derived from prior-international experience might have an effect on the level of preparedness of expatriates to adjust to new work environments in a foreign location, and factors such as the type of job and type of position were reported as important elements in adjustment and performance (Alshammari, 2012; Bashir, 2012; Kolancian, 2012; Peltokorpi, 2008). The effects on institutional economic, financial, and social impacts of globalization and liberalization may vary from one country to another, not only because of cultural differences but also because of political issues. For example, there are not only vast cultural differences between Russia and America (Hofstede, 2009), but also the rising political tension between the two countries has added a new dimension to the existing gaps and challenges (Barnes, 2014; Collina, 2014; Morley, 2014).

SOLUTIONS AND RECOMMENDATIONS

The number of employees that chose to work abroad has been on the increase since the 2008-2009 global-economy slowdown (Brookfield Global Relocation Services, LLC, [Brookfield] 2014). These expatriates on international assignments cannot only be exposed to a new group of coworkers, supervisors and underlings (Froese & Peltokorpi, 2011; Varma, Pichler, Budhwar, & Kupferer, 2012) but must also adjust to new living arrangements, modes of transportation, food, social circles, language and communication, and the overall cultural environment (Bhatti et al., 2013; English, 2015). Inadequate preparation when working in other countries has resulted in almost 80% of expatriates not completing their employment contracts (Kolancian, 2012).

American expatriates who live and work in Russia are worthy of inquiry because cultural issues and management practices are country-specific and may influence American expatriates' adjustment in Russia differently from other nationalities (Hofstede, 2009; Wood, 2010). According to Hofstede (2009) and Wood (2010), there are similarities in some cultures such as Canada and the United States, but both countries are culturally-different from European countries. For example, there are major cultural differences between Russia and America in terms of power distance, individualism/collectivism, uncertainty avoidance, masculinity/femininity, and long/short-term orientation (Hofstede, 2009). American companies have longer globalization experience than Russian companies and the cultural differences between the

two countries may have different social impacts on American expatriates and Russian nationals. These differences may influence the corporate culture and a company's structure. It is for the aforementioned cultural, social impact, and nationality-related challenges faced by expatriates that this chapter focuses on Americans working in one cultural context, Russia. Beneficial information to assist American companies who do business in Russia and their employees with cross-cultural adjustment and performance is needed, and it may be important to U.S.-based MNCs, such as reducing expatriates' early repatriation, mitigating economic and financial losses, and preventing any loss of reputation as unreliable institutions (Green, 2012; Kolancian, 2012; Peltokorpi & Froese, 2012; Wood, 2010).

Beside monetary contract costs between American companies and their expatriates, there are also intangible psychological contract costs. These costs are psychologically-based, which may arise from expatriates' perceptions of their employers' lack of support, interest in their success, and wellbeing in host countries. Perceptions may ignite a lack of interest in the job and contextual performance, which may result in an economic and financial loss for companies and their expatriates, a challenge for the management, and low morale for expatriates (Kumarika Perera, Yin Teng Chew, & Nielsen, 2017).

The chapter findings have highlighted several points that may have implications academically and professionally on American MNCs' expatriate-employee selections and their expatriates' adjustment and performance when assigned to work abroad. The first recommendation for practice was to encourage American U.S.-based MNCs that do business in Russia to incorporate the prior-international experience, into the employment selection process, training, and selection process of their expatriates (Bashir, 2012; Kraimer et al., 2009). More specifically, companies may benefit from the recruitment of American employees with three-to-five years of prior-international experience for an overseas assignment in Russia to mitigate expatriate adjustment (Bashir, 2012; Kolancian, 2012). The second recommendation for practice was for the U.S. Chamber of Commerce (Chamber) to create programs that would assist member firms to develop a knowledge base and recruitment practices related to the finding for the effect of three-to-five years of prior-international experience on American U.S.-based MNCs' expatriate adjustment in Russia. In other words, the Chamber could stress that all employees being transferred to Russia have three-to-five years of prior-international experience (Bashir, 2012; Kraimer et al., 2009).

FUTURE RESEARCH DIRECTIONS

Prior studies have indicated the importance of pre-assignment training, including cross-cultural and language training on expatriate adjustment (Bashir, 2012; Kolancian, 2012; Koo Moon, Kwon Choi & Shik Jung, 2012; Selmer, 2010; Wood, 2010; Wu & Ang, 2011; Zhang, 2012). Prior studies have also indicated the importance of expatriates' selection process for the international assignment and the organizational training and support provided on cross-cultural adjustment and initial entry to host countries (Okpara & Kabongo, 2017; Sherman & Morley, 2018). To lower expatriates' failure, it has been determined that the appropriate training of a trailing spouse plays a significant role (Webber & Vögel, 2019). To mitigate adverse effects or bolster positive outcomes on institutional, economic, finance, and social impacts of globalization and liberalization, future research might include a study to conduct a causal-comparative study to evaluate pre-assignment training as a moderating factor to explain differences in adjustment for employees with different types of job and types of position. In addition, future research may involve a quasi-experimental study to further assess interactions among the three independent variables: type of position, type of job, and prior-international work experience as to the influence on expatriate-employee

adjustment. While no significant differences have been identified in past research for expatriate adjustment based on type of position or type of job, it could be possible that expatriate adjustment for employees in different type of positions depends on their length of prior-international experience.

CONCLUSION

The number of employees that chose to work abroad has been on the increase since the 2008-2009 global-economy slowdown. When expatriates are dispatched to international assignments, the process of adjusting to a new work environment becomes increasingly complicated due to a host of work-related and non-work-related factors. The American expatriates who live and work in Russia report adjustment challenges; however, the research has shown they are less likely to terminate their employment prematurely because of type of job and the host country nationals did not contribute to those challenges when based on American expatriates' type of position. Significant differences have also been reported for American expatriate adjustment who lived and worked in Russia based on length of prior-international experience. Also, proficiency in some host countries' languages such as proficiency in the Japanese language had the most influence on expatriates' work and non-work adjustment, followed by expatriates' personality traits. Another finding was the strong relationship between expatriates' gender and adjustment, which contrary to previous findings suggested that it does not influence either type of adjustment. In case of expatriates adjusted in South Korea only language skill was not sufficient to adjust well in South Korea. There were other complementing elements/skills to language that helped expatriates to adjust. These skills were verbal and non-verbal coping skills, foreign consumer cultural adapt, and communicative approach-avoidance by Koreans. On the work role and its influence on adjustment of German expatriates who worked and lived in Central and Eastern Europe (CEE) and Russia, findings confirmed that there was a connection between poor general adjustment and conflict at work. It was also determined that, language is an important component that assisted German expatriates to adjust in the host countries and should be part of expatriates' readiness training.

Two recommendations for practice included (a) encouragement of U.S.-based MNCs that do business in Russia to incorporate the finding of this study, and (b) for the U.S. Chamber of Commerce to create programs to assist member firms to develop a knowledge base and recruitment practices for better adjustment of American expatriates in Russia (Bashir, 2012; Kraimer et al., 2009). Recommendations for future research included evaluation of pre-assignment training as a moderating factor to explain differences in adjustment for employees with different types of job and types of position, and further study to further assess interactions among [the current study variables] as to the influence on expatriate-employee adjustment.

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KEY TERMS AND DEFINITIONS

Contextual Performance: Contextual performance is a measure of the effectiveness of an individual's relationship with other employees, which goes beyond just doing a job and contributes to an organization's effectiveness.

Cross-Cultural Adjustment: Cross-cultural adjustment is a process that employees may go through to make themselves more familiar with their surroundings in the host country.

Expatriate: An expatriate is defined as a person that is either by his/her volition and/or assigned by his/her organization to an international work assignment.

General Adjustment: General adjustment refers to acceptance and comfort level with respect to a host country's culture and customs, such as food, housing, and schooling.

Intangible Psychological Contract Costs: These costs are psychologically based, which may arise from expatriates' perceptions of their employers' lack of support, interest in their success, and wellbeing in host countries.

Interaction Adjustment: Interaction adjustment refers to the level of psychological understanding, acceptance, and comfort with respect to a host country's culture of communication and interpersonal styles.

International Work Experience: International work experience is defined as any prior work-related experience for any period an expatriate has had working in a foreign country.

Job Performance: Job performance encompasses two distinct elements, contextual, and task.

Task Performance: Task performance is a measure of an individual's productivity of performing an assigned job.

Work Adjustment: Work adjustment refers to understanding, acceptance, and comfort level with respect to a host country's corporate culture.

Chapter 27
Local Governments on the Way at the Provision of Gender Equality

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ABSTRACT

The provision of gender equality has been a critical agenda for public administrations and organizations. In Turkey, both local governments and central government has been dealing with initiatives towards the provision of equality of man and woman. At that context, Republic of Turkey Ministry of Interior, Foreign Affairs and European Union Department 2010 Circular on "Human Rights of Women and Girls" is an important Circular in terms of local governments and the issue of gender in Turkey. At the study, the local governments' relation with the issue of gender equality has searched. At that framework, firstly, the concepts of gender and gender equality have explained. Secondly, the national documents in related to women in Turkey, and Local Equality Action Plans of six provinces in the context of the Republic of Turkey Ministry of Interior and United Nations Protecting the Human Rights of Women and Girls and Development Joint Program have been explained to search the local governments' relation with the issue of gender, and lastly some practices of local governments have explained on the issue of gender equality.

INTRODUCTION

Increasing the quality of life of women in urban physical space is a critical issue on the international scale and the issue of rising the life quality of women should be included in the agenda on behalf of the cities, the population is increasing in our cities, and the population increase makes it obligatory the issues such as benefiting from the opportunities equally for the citizens and enabling the urban and spatial needs of the citizens quickly and healthily (Altay Baykan, 2015: 10). For centuries, women have taken a back seat in the society and this fact of having taken a back seat leads to the victimization of women in our country and in the world, and when looking at the old times, this fact was not taken into consideration,

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but the requirement that women have equal rights with men in the globalizing world has been embraced (Külekci and Canbay, 2012: 36).

The women who have been faced with gender discrimination suffer from inequalities in those following issues; to have legal, political, and economic, social rights, to exercise their rights in related to legal, political, and economic, social rights, and resource ownership concerning land and capital (Üner, 2008: 7). The inequalities have been sustaining between men and women in lots of significant areas; women's mortality and morbidity ratios surpass the rates of the men, in traditional aspect concerning women's employment in comparison to men, the women have been employed at low-paid jobs at a narrow range of occupations in comparison to men, and the wage of women are 60-70 percent of wages in comparison of the wages gained by men (World Bank, 1995: 2).

In Turkey, there have been miscellaneous steps on the central government and local government level to cope with the gender based problems. The Ministry of Family, Labour and Social Services, General Directorate of Status of Women the Report of 'Woman in Turkey' (2019) in related to the illiteracy rate in both sexes, it is pointed out that "the illiteracy rate has demonstrated an increase when going from the younger age groups to the older age groups, from the urban population to rural population and from the West regions to the East regions" (General Directorate of Status of Women, 2019: 22). In addition, at the same Report of 'Woman in Turkey' women's employment problems are listed, and some of the problems clarified as follows (General Directorate of Status of Women, 2019: 42); "There is no gender-based discrimination in the laws regarding women's entry into the working life or about their attendance to the work after the entrance. However, there are some examples of discrimination that faced such as certain jobs and professions not being accepted as socially appropriate jobs for women, not being treated fairly in the distribution of duties, dismissing women first in times of economic crisis, and keeping wages low especially in the informal sector. Since jobs and professions in the labor market are differentiated as woman's jobs and man's jobs, women concentrate only on traditionally accepted jobs, and are willing to work in lower status and paid jobs..". At the Report titled 'Woman in Turkey', women deputies' number in the parliament in the general elections of June 24, 2018, is declared as 104, the representation ratio is indicated as 17, 45% (General Directorate of Status of Women, 2019: 55).

In that context, the concept of gender explains that femininity and masculinity is socially established and that concept also pointed out femininity and masculinity are learned patterns as a comprehensive concept and the concept of gender has broad expansions (Özaydınlık, 2014: 94). The necessities in terms of ensuring gender equality are declared as; the structuring of the policies of the public on a central and local scale in a gender-sensitive manner and the structuring of the policies of the public on a central and local scale with taking into account the impact to the women, and putting in the front row the policies and services that benefiting women's lives (Demirdirek and Şener, 2014: 11).

The reason of the positive expectation from local governments in achieving equality between men and women is the egalitarian steps realized on the local level, the Gender Equality or Woman-Man Equality Commissions in the recent period have been established and these commissions have been set up within the context of the local governments, thanks to these commissions, local governments take the liability of considering the women and men's equality, local governments take the responsibility of taking into account the women-men equality in the provision of local services and those local services' organization (Erdinç, 2017: 129).

In the study, firstly, the concepts of gender and gender equality have been explained, later the basic statistics on woman and man in Turkey have been clarified, and the national documents that have been prepared in related to women have been explained concerning local governments relation with gender.

Lastly, the local governments' relation on gender equality have been explained with the Local Equality Action Plans (LEAPs) of six provinces in the context of the Joint Program that is implemented (Protecting the Human Rights of Women and Girls and Development Joint Program) by Republic of Turkey Ministry of Interior and by United Nations Population Fund Turkey Representative (Republic of Turkey Ministry of Interior, 2010: 1). Lastly, some practices of local governments have explained concerning the issue of gender equality.

MAIN FOCUS OF THE CHAPTER

The concept of gender, unlike biological sex, has been used for the clarification of the followings; the concept used to describe the woman and man in social and cultural aspects, the concept used to express the way societies distinguish the woman and man, and the term used to explain the social roles it gives to the woman and man (Ecevit, 2011: 4). Gender is also identified as social characteristics and chances related with being female and male and the relationships between them and boys and girls, it is also concerned with the relations between women and the relations between men (United Nations, 2001:1). Moreover, gender equality is mentioned as the equal opportunities, responsibilities and rights of men and women and boys and girls; gender equality refers the priorities, necessities and the interests of both men and women are considered, and understanding the diversity of the varied groups of men and women (United Nations, 2001: 1).

European Commission (2004: 3) clarified the term gender as follows; the social roles and differences allocated to the men and women, and the roles have been learned while the individual has been growing up, and in time it is changed and relied on economic, geographical, class, culture, education, ethnic origin and religion, and political environment, and it is also pointed out that the concept of gender identifies behaviours and qualities' set hoped from women and men by the society and that creates the social identity of them. European Commission (2004: 3) also emphasized the gender equality as the distinct necessities, attitude and wishes of men and women are valued equally and favoured and do not lead to the augmentation of varied results which strengthen inequalities. Lastly, UNICEF (2017: 3) identified gender equality as "gender equality is a matter of human rights and is considered a precondition for, and indicator of, sustainable people centred development".

The Case of Turkey

The Status of Gender Equality in Turkey

According to the data of Turkish Statistical Institute (Türkiye İstatistik Kurumu/ TUIK) (2019: 1), the rate of the female population in Turkey was indicated as 40 million 863 thousand 902 people, male population ratio is clarified as 41 million 139 thousand 980 people; as to the data of, Turkish Statistical Institute (2019: 1), in the year 2018, it is emphasized that "men constitute 50,2% of the population, women constitute 49, 8%".

In Turkish Statistical Institute (2019) Newsletter 'Women with Statistics', the proportion of women who have completed at least one level of education in Turkey, indicated as % 83, 6, and it is expressed that when the gender equality index is analysed over the years, it is stated that the index related with higher education gender equality has the characteristic which is improved in favour of female students

since 2008, in addition, the employment rate of women is stated to be realized less than half of the employment rate of men (Turkish Statistical Institute, 2019: 1). In Turkish Statistical Institute (2019) Newsletter 'Women with Statistics', it is clarified that in accordance with the results of the household labour force survey; the proportion of those employed in Turkey who are at the age of 15 and above is indicated as 47,1%, and the corresponding rate for male was clarified as 65,6% and the corresponding rate for female was clarified as 28, 9% in 2017 (Turkish Statistical Institute, 2019: 1). Although gender equality in areas such as access to education and schooling has been achieved in the last 10 years in Turkey, the reasons such as geographical differences and regional differences, training areas and types where female students are concentrated, leaving school early and low proportion of female students in higher education, reveal that there is the necessity of improvements in education (KOÇ-KAM, 2019: 10).

At Turkish Statistical Institute data for the year 2018, the participation ratio of women in employment has been indicated as 29.4%, and 2.2% increase has been clarified in the participation ratio of women in employment in related to the last 20 years (KOÇ-KAM, 2019: 13). The category of 'busy with housework' has the highest percentage for women who are not included in the workforce as the reason for women not participating in the workforce in 2018 and the ratio related to 'busy with housework' is demonstrated as 54. 8% in the year 2018 (KOÇ-KAM, 2019: 15). In Global Gender Gap Index of 2020, Turkey was clarified at the rank of 130 among 153 countries (World Economic Forum, 2020: 343), and in the gender gap index of 2013, Turkey was indicated at the rank of 120 among 136 countries (World Economic Forum, 2013: 360).

Local Governments Relation to Gender Based Issues

Klatzer (2012: 11) pointed out those clarifications concerning the gender equality and local administrations as follows; "Local administrations are the main actors at the provision gender equality, because services and resources are provided at the local administration level, and the improvements that realized at that level at the women's economic rights and women's participation in the economy, gives direct results both women and everyone's life in the community".

Traditional gender norms set roles for women, and cities developing in line with these roles and cities are largely shaped by the needs and expectations of the men benefiting from the city, and women remain secondary in that related spatial setting; the necessity has emerged towards the development of the understanding of local government with taking into account the expectations of women and the development of the content of space and planning also considering the expectations of women in line with the rise at participation of women in urban life with respect to the participation of women to the economic, spatial and social fields (Ateş, Yavuz and Dağlı, 2018:137-138).

In that context Alkan (2005: 65) clarified the functions that local administrations can perform within the scope of public support policies as follows;

Childcare and education centers free of charge in poor districts and low cost in others (such as nursery, kindergarten and study center), care and accommodation centers for the elderly and addicts, vocational training and skills courses that will facilitate women's income-generating activities, especially based on the acquisition of skills that are valid in the market, Creating joint production and marketing opportunities by taking into account the women in home production, orientation, consultancy and training services to establish a production and marketing cooperative within this framework, guidance and

counselling services that facilitate the job search process for women who want to find a job outside (business guidance) and etc.

The starting point of the provision of gender sensitive service is the determination of the different effect of social and physical environment on men and women, the next stage is to make the provision of public services gender-sensitive in the three main fields, and the intervention areas described as follows: formation of urban services specific for women; the provision of all services with evaluation of the services with considering the gender equality; and women's representation at decision-making mechanisms in an equal way (Tekinbaş, 2015: 30). The local governments has an importance on the gender equality by the gender sensitive based policies, the local governments are the administrative units which are close to the local citizens in taking their wishes, expectations, and problems on gender-based issues.

National Documents Prepared Towards Women in Turkey

'Women's Empowerment Strategy Document and Action Plan' prepared within the coordination of the General Directorate of the Status of Women and that related Action Plan prepared for the period that covers the years of 2018-2023 and the main objectives of the plan are to strengthen women's participation in related to the participation to the economic and social life, enabling the women to enjoy equally from the rights, opportunities and possibilities, the reflection of the issue of equality of man and woman to the main plans and policies and the plan includes 5 main policy axes concerning women's empowerment: "education, economy, health, participation in decision making mechanisms, media" (General Directorate of Status of Women, 2019: 16). In the General Directorate of Status of Women (2019: 16) 'The Woman in Turkey Report', it is expressed that "various duties and responsibilities are given to public institutions and organizations, local governments, universities, non-governmental organizations and private sector through Women's Empowerment Strategy Document and Action Plan" (General Directorate of Status of Women, 2019: 16).

At Women's Empowerment Strategy Document and Action Plan (2018), the importance of local governments at the empowerment of women had been declared with those clarifications; "Local governments for empowerment of women in Turkey also have a very important place. As an institutional structure; municipalities have gender equality units, council specialized commissions, women's guesthouses tied to municipalities, and women's counselling centers. Also, works are carried out by municipalities to empower women through vocational courses" (General Directorate of Status of Women, 2018: 38). It is seen that in Women's Empowerment Strategy Document and Action Plan (2018: 38), the local governments are emphasized to have an important place on the issue of empowerment of women.

Under the current status title of that related Plan; it is emphasized that "the representation of women in local governments, which are accepted as the first step of participation in political life and plays a key role in the development of democracy, is extremely important in terms of taking decisions at the local level more sensitive to woman-man equality. In the context of achieving the goal of gender equality and empowerment of women, one of the Sustainable Development Goals of 2030, it is also necessary to ensure the women's participation in decision-making mechanisms at the local level *(SDG 5)*" (General Directorate of Status of Women, 2018: 99). It is observed that in Women's Empowerment Strategy Document and Action Plan (2018: 99), the issue of the women's representation in local government has also been emphasized.

In 3rd National Action Plan on Combating Violence Against Women (2016-2020), the improvements that are targeted in the five main areas are listed as follows: "legislation arrangements, awareness raising and mentality transformation, protective and preventive service provision and strengthening of victims of violence, regulation and implementation of health services, collaboration between institutions and organizations and policy" (General Directorate of Status of Women, 2019: 17).

Table 1. National Action Plan on Combating Violence Against Women (2016-2020)[1]

Goal	Activity	Responsible Institution
Goal 2. It is pointed out that "To provide social awareness, sensitivity, raising-awareness and mentality transformation in the issues of gender equality, violence against women and domestic violence in order to eliminate negative attitudes and behaviours that cause and reinforce violence against women".p.56	Activity.2.7. It is stated that "By making impact analysis of training programs that will be held on violence against women, the existing programs and materials will be updated within the scope of the results". p.56	One of the responsible institution is designated as Local Governments. p.56
Goal.3. It is clarified that "By the accessible protective and preventive services more effective provision and their dissemination to the women who are subjected to violence and who are at risk, and if there is any for their children, to ensure that these people strengthen socioeconomically".p.67	Activity 3.8. It is emphasized that "Refugee and asylum women and children will be ensured to benefit from protective and preventive services". p.67	One of the responsible institution is designated as Local Governments.p.67

Source: *(General Directorate of Status of Women, 2016)*

In the National Action Plan on Combating Violence Against Women (2016-2020), it is seen that local governments have been clarified as one of the responsible institution at the achievement of the goal 2 (2016-2020: 56) and goal 3 (2016-2020: 67) (General Directorate of Status of Women, 2016).

Table 2. Combating Violence Against Women Coordination Plan 2020-2021[2]

Goal 3. It is clarified that "Necessary measures to be taken within the scope of the Ministry of Interior's duty field in combating violence against women".p.17.	Activities 3.1.2. It is pointed out that "Circulars will be published by each provincial governorship to mobilize local actors in combating violence against women".p.19.
Sub-Goal 3.1. It is emphasized that "Effective implementation of legislation". p.19.	Activities 3.1.3. It is clarified that "In order to ensure effective implementation of Provincial Action Plans on Combating Violence Against Women in 81 provinces and to evaluate the works carried out, meeting the Combating Violence Against Women Provincial Coordination, Monitoring And Evaluation Commissions with the participation of senior representatives of relevant institutions and organizations under the chairmanship of the Governor; the efficiency of decision-making and implementation processes will be increased. (One of the related institution is designated as Local Governments)".p.19

Source: *(Combating Violence Against Woman Coordination Plan, 2020-2021)*

In the 'Combating Violence Against Women Coordination Plan' (2020-2021: 19), it is seen that in the sub-goal of 3.1. concerning effective implementation of legislation, one of the related institution is clarified as local governments.

Local Equality and Action Plans and Local Governments

Republic of Turkey Ministry of Interior, Foreign Affairs and European Union Department 2010 Circular on "Human Rights of Women and Girls"

In Republic of Turkey Ministry of Interior, Foreign Affairs and European Union Department 2010 Circular on "Human Rights of Women and Girls", it is expressed that; "Participatory democracy, the rule of law and the protection of human rights are one of the most important issues that our Ministry attaches importance. Many studies have been made by our Ministry on an exemplary level to ensure gender equality and women's empowerment. In this context, Protecting the Human Rights of Women and Girls and Development Joint Program implemented at six pilot provinces in Izmir, Kars, Nevşehir, Şanlıurfa, Trabzon and Van between 2006-2009, by our Ministry and by the United Nations Population Fund Turkey Representative" (Republic of Turkey Ministry of Interior, 2010: 1).

The studies carried out within the context of the Republic of Turkey Ministry of Interior and the United Nations Joint Program are clarified in the Circular as follows (Republic of Turkey Ministry of Interior, 2010: 1);

"In the six province where the Joint Program is implemented, "Local Equality Action Plans" which are commitment document that will give priority to the efforts to improve the quality of life of women and girls, have been prepared by running a participatory process in cooperation with especially local governments, women's organizations; and non-governmental organizations and approved by the provincial general council and municipal councils then pass to the implementation process. Local Equality Action Plans (LEAPs) targeted to achieve woman man equality at the local level, for this to settle the gender approach in the local government understanding and to sustain the practices. LEAP s are also placed in the special provincial administration and municipal strategic plans (Item-1). At the implementation process of LEAPs, the institutional framework of local equality policies has been formed. In this context, Provincial Women's Rights Coordination Committees have been established in pilot provinces in order to coordinate and monitor studies on woman man equality (Item-2). Equality units in the governorship and municipalities were established for conducting the secretariat of that Committee and to receive applications and complaints from woman and girls (Item-3). Woman-man equality commissions were established in the provincial general council and municipal councils ..(Item-4)" (Republic of Turkey Ministry of Interior, 2010: 1).

To summarize, as it is seen at that related Circular (Republic of Turkey Ministry of Interior, 2010: 1), LEAPs have been prepared with the cooperation of local governments, and at the pilot cities Provincial Women's Rights Coordination Committees have been set up and for the secretariat service of that related Committee equality units are established in Governorship and municipal administrations, and lastly, woman-man equality commissions have set up in provincial general council and municipal councils.

Local Equality Action Plans and Local Governments

LEAPs are identified as local equality policies, there are two features that enable it to be defined as such; its goal is based on women's empowerment and also based upon to remove the obstacles at women's participation in cultural, economic, social and political life of the city, and second feature is to envisage a local service model and local resource allocation which have the peculiarity of including the principle of gender equality and also have the peculiarity of functioning with the cooperation of public and civil

society (Şenol *et.al*., 2010: 25). United Nations Joint Program's main tool is determined as LEAP and the target of LEAP in related to gender is to settle to gender equality approach to the local government and local politics (Şenol *et.al.*, 2010: 24).

Table 3. Local Equality Action Plans of Six Pilot Cities within the Context of the Republic of Turkey Ministry of Interior and United Nations Joint Program[4]

İZMİR Local Equality Action Plan (LEAP) (2006-2010)	In the Izmir LEAP Document, the activities that made by the Governorship, Municipality and Women organizations all together have been expressed and the activities of the municipal administration are clarified as; • "A staff officially appointed to the İzmir Governorship and to the Metropolitan Municipality to facilitate women's access to local service and opening Women's Advisory Centre of Izmir Metropolitan Municipality, • Opening the Buca Municipality Women's Activity Center and establishing the Konak Women's Council, • The approval of the İzmir Local Equality Action Plan by Municipal Council and Provincial General Council and the establishment of woman-man equality commissions in the councils, • The carrying out the project of İzmir Metropolitan Municipality "We start to be urbanized by learning how to read and write" [3] http://www.sabancivakfi.org/i/assets/documents/izmir-yeep.pdf .
KARS LEAP (2006-2010)	In the Kars LEAP Document, the activities that realized by the Governorship, Municipality and Women organizations all together have been stated and the activities of the municipal administration are explained as; • "The establishment of the woman unit in the municipality, • The allocation of appropriations from the special provincial administration and the municipal budget for works for women, • The approval of Kars Equality Action Plan by the Municipal Council and Provincial General Council and the establishment of woman-man equality commissions in the councils, • In the context of the Sabancı Foundation Grant Program, the implementation of projects titled "municipality-NGO hand in hand" and "women in local governments" http://www.sabancivakfi.org/i/assets/documents/kars-yeep.pdf .
NEVŞEHİR LEAP (2006-2010)	In the Nevşehir LEAP Document, the activities that made by the Governorship, Municipality and Women organizations all together have been clarified and the activities of the municipal administration are stated as; • "The establishment of Municipality Women's Education Unit by Nevşehir Municipality, • Giving stand to the women to exhibit their products by the municipality, • The approval of the Nevşehir Local Equality Action Plan by the provincial general council and municipal council, • The establishment of woman-man equality commissions within the context of local councils" http://www.sabancivakfi.org/i/assets/documents/nevsehir-yeep.pdf .
TRABZON LEAP (2006-2010)	In the Trabzon LEAP Document, the activities that realized by the Governorship, Municipality and Women organizations all together have been emphasized and the activities of the municipal administration are clarified as; • "Signing a protocol between Municipality and National Productivity Center and starting a research for 'the levels of the women at the utilization of urban services: problems and solution proposals', • Opening the family services referral center within the municipality, • The approval of the Trabzon Local Equality Action Plan by the provincial general council and municipal council and the establishment of woman man equality commissions, • The establishment of a woman man equality desk within the municipality and the appointment of an officer" http://www.sabancivakfi.org/i/assets/documents/trabzon-yeep.pdf .
URFA LEAP (2006-2010)	In the Urfa LEAP Document, the activities that made by the Governorship, Municipality and Women organizations all together have been stated and the activities of the municipal administration are explained as; • "Taking action of the continuing education center for the women in the Municipality, • Providing women the stand to exhibit their products by the municipality and benefiting more women from micro credit applications, • The establishment of woman man equality commissions of the municipal council and provincial general council, and the approval of the Şanlıurfa Local Equality Action Plan by provincial general council" http://www.sabancivakfi.org/i/assets/documents/urfa-yeep.pdf .
VAN LEAP (2006-2010)	In the Van LEAP Document, the activities that realized by the Governorship, Municipality and Women organizations all together have been explained and the activities of the municipal administration are stated as; • "The approval of Van Local Equality Action Plan by the municipal council and provincial general council" http://www.sabancivakfi.org/i/assets/documents/van-yeep.pdf .

As it is observed at Table 3. above in most of the partner cities, the municipalities have been engaged to projects concerning women; women unit, woman man equality commissions, equality desk have been established, and also women centers have been established and in all cities LEAPs have been approved which can be clarified as a good step at the provision of the gender equality[5].

Gender Equality Initiatives of Municipal Administrations: Some Practices

A Secretariat in Sweden, in Stockholm, is liable from working on all forms of discrimination's elimination, the Vienna City Women's Unit has been carrying its studies for a long time in Vienna, Austria, there are 5 consultants responsible for counselling on the issue of equality in city management (Şenol, 2008: 5-6). Moreover, in the year 2000, Vienna City launched Gender Mainstreaming Project with the Municipal Department and city administration and the main target was designated as gender mainstreaming's structural implementation in the departments that are determined in Vienna (UN-Habitat, 2008: 30). In Costa Rica, there is a municipal administration plan for promoting gender equality in Belen, Costa Rica and the objective is expressed as awareness- raising in the municipal administration to advocate alteration at the institutional culture (UN-Habitat, 2008: 36). The other practice concerning gender equality is expressed as 'gender and citizenship' programme towards social inclusion in Santo Andre, Brazil, and this programme is an output of a cooperation between Santo Andre Municipality and Centre for Health Studies, the programme has the objective to support awareness concerning gender (UN-Habitat, 2008: 51).

Gender Based Units at the Municipal Administrations: Their Main Targets and Tasks

As the most common equality mechanism at the local level, the equality commission/ committees formed within the scope of the municipality council and provincial general councils, having initiatives in related to the preparation and coordinate an action plan with the target of the establishment of the perspective of equality at the local government level, and those committees can submit proposals related to equality to the municipal and provincial general councils (Şenol *et. al*., 2010: 78).

Antalya Metropolitan Municipality Woman-Man Equality Unit

Antalya Metropolitan Municipality Woman-Man Equality Unit Coordination Office Directive, the target is declared at the Article (1) with those clarifications as follows; "the purpose of this directive is; in line with the goals and principles of Antalya Metropolitan Municipality, to regulate the working procedures and principles of the Woman Man Equality Unit Coordination Bureau that will ensure the municipal services are provided with a gender equality perspective, will provide woman and man benefit equally from service provision within the framework of equality policies, will work on equality between woman and man" (Turkish Republic Antalya Metropolitan Municipality Woman-Man Equality Unit Coordination Office Directive, 2012: 1). [6]

Some of the tasks of that Related Unit have been expressed at the Article 5 - (1) as follows; "the Coordination Bureau of the Woman Man Equality Unit within the framework of the Local Equality Action Plan, will prepare the Municipality Equality Action Plan with Municipality's relevant units; in the light of the plan will develop service models for women's problems and needs; will conduct relevant research and evaluation in related with the needs; and it is the unit that will make cooperation with municipality and local institutions, local councils and women organizations. When necessary, the professional staff

working in the Unit have the responsibility to request information from Municipal Units and municipal units have the responsibility to respond to this request" (Turkish Republic Antalya Metropolitan Municipality Woman-Man Equality Unit Coordination Office Directive, 2012: 2).

Samsun Metropolitan Municipality Women, Family and Social Services Department

Moreover, in Samsun Metropolitan Municipality, Women, Family and Social Services Department, Duties and Working Regulation, at the title of Duties, powers and responsibilities of the Women, Family and Community Services Branch Office at the article 9, there are those clarifications in related to gender equality as follows (Samsun Metropolitan Municipality Women, Family and Social Services Department, Duty and Working Regulation, 2019: 13);

"İtem 63-Providing Local Equality Unit Service. Ensuring gender equality in municipal services, equal distribution of services to especially women, the elderly, children and the disabled, creating equal opportunities in accessing resources, to provide the cooperation in the preparation of equality policies and gender sensitive budgeting by all units and carrying out studies on Gender Equality,

İtem 65-Making awareness studies, training seminars and meetings for municipal staff within the scope of Gender Equality,

İtem 66- To organize awareness and education studies on social roles and gender equality issues to ensure the integrity of the family that makes up the society".[7]

CONCLUSION

In 'Woman in Turkey Report' (General Directorate of Status of Women, 2019: 16), it is emphasized that local administrations' have also given responsibility and duties. In Women's Empowerment Strategy Document and Action Plan (General Directorate of Status of Women, 2018: 38), it is also pointed out that local governments in related to women's empowerment in Turkey stated to have a significant place, municipalities institutional structure in related to gender also emphasized such as gender equality units and guesthouses for women and also councelling centers for women. At the same Report (2018: 99), it is also declared that "the representation of women in local governments, which are accepted as the first step of participation in political life and plays a key role in the development of democracy, is extremely important in terms of taking decisions at the local level more sensitive to woman-man equality". Moreover, in National Action Plan on Combating Violence Against Women (2016-2020), in the goal 2 (2016-2020: 56) and in the goal 3 (2016-2020: 67), one of the responsible institution is designated as local governments (General Directorate of Status of Women, 2016). Besides, in the Coordination Plan on Combating Violence Against Women (2020-2021:19), one of the related institution is also declared as local governments in the sub-goal of 3.1.in related to the effective implementation of legislation.

Moreover, Republic of Turkey Ministry of Interior, Foreign Affairs and European Union Department 2010 Circular on "Human Rights of Women and Girls" (Republic of Turkey Ministry of Interior, 2010: 1), it is declared that LEAPs have been prepared with a participatory approach that also including local governments. In that Circular on "Human Rights of Women and Girls" (Republic of Turkey Ministry of Interior, 2010:1), it is added that Provincial Women's Rights Coordination Committees, and equality units in the municipalities and governorship, and woman-man equality commissions have set up. More-

over, at the examination of the LEAPs of pilot cities which is demonstrated in the study at the Table 3, it is seen that municipal administrations have participated projects in related to women, and women unit and centers have established and also woman man equality commissions have set up[8]. When looking to some practices of municipal administrations such as woman-man equality unit of Antalya Metropolitan Municipality and Samsun Metropolitan Municipality Women, Family and Social Services Department, it is seen that gender equality agenda has been included to issues of municipal administrations.

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ENDNOTES

1 This Table has been prepared by the examination of National Action Plan on Combating Violence Against Woman (2016-2020), Turkish Republic the Ministry of Family, Labor and Social Services, The General Directorate of the Status of Women.

2 This Table has been prepared by the examination of 'Combating Violence Against Woman Coordination Plan 2020-2021.

3 At the examination of the LEAPs (2006-2010) of the cities, only the initiatives of the local governments especially the municipalities have been analysed.

4 This Table has been prepared according to the LEAPs of the partner cities that are published at the website of <http://www.sabancivakfi.org/tr/sosyal-degisim/yerel-esitlik-eylem-planlari>.

5 For details, see, <http://www.sabancivakfi.org/tr/sosyal-degisim/yerel-esitlik-eylem-planlari≥.

6 For Details, see, Antalya Metropolitan Municipality <http://antalya.bel.tr/Content/UserFiles/Files/ Birimler_Mevzuatlar_Yeni%2FR.00-Kad%C4%B1n-Erkek%20E%C5%9Fitlik%20Birimi%20 Koordinasyon%20B%C3%BCrosu%20Y%C3%B6nergesi-MECL%C4%B0S%20SONRASI%20 D%C3%9CZENLEME.pdf>, p.1.

7 For Details, see, <https://www.samsun.bel.tr/birim/kadin-aile-ve-sosyal-hizmetler-dairesi-baskanligi≥

8 For details, see, <http://www.sabancivakfi.org/tr/sosyal-degisim/yerel-esitlik-eylem-planlari≥

Chapter 28
Do We Have to Rethink Sovereign Debt of Developing Countries?

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ABSTRACT

The chapter joins new reflections interested in measuring welfare and social progress. The main objective is to determine whether the sovereign debt management process in developing countries is economically viable, socially equitable, and ecologically sustainable. The analysis advocates rethinking the sovereign debt around the idea of social sustainability, that is, the non-questioning of the living conditions of present and future generations and their economic, social, and political choices. The chapter suggests the need for developing countries (1) to ensure a comprehensive management of public debt based on the co-responsibility of both the indebted countries and their creditors, (2) to borrow in priority to finance the most productive investment expenditures, which can have an impact on the populations' standards of living and on economic prosperity, and (3) to reduce the use of austerity programs and anti-social policies.

INTRODUCTION

During the last two decades, the sovereign debt of developing countries (DCs) subject has gained interest in the international scene. Indeed, after the rejection of the International Monetary Fund (IMF) proposal for the law on state bankruptcies[1] in 2003, the United Nations' resolutions[2] in favor of making the sovereign debt management framework more equitable between debtor countries and their creditors have multiplied.

However, it must be noted that the debate remains inconclusive. While international financial institutions (IFIs) and some developed countries advocate the preservation of the contractual approach based on the market mechanisms, some developing countries supports an institutional or even juridical approach (CNUCED, 2015). Definitively, the failure of the contractual approach, whether partial or total, leads us to wonder about the limits and inadequacies of the traditional approaches to sovereign debt.

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In this chapter, the authors join new reflections interested in measuring social progress and welfare introduced by the Stiglitz-Sen-Fitoussi report (2010). They aim to refocus the debate on the sovereign debt of DCs around the idea of sustainability, in other words, to say whether what is done is *economically, ecologically, politically, and socially sustainable* (Fitoussi & Stiglitz, 2012).

Therefore, the authors try to re-examine the predominant sovereign-indebtedness view, which is purely accounting in favor of the sustainability idea in its large acceptance, i.e. with respect to the life conditions of present and future generations and without compromising their economic, political, and social choices.

The chapter main objective is to highlight the lack of research directed towards a social sustainability of sovereign debt. The authors argue for a new theoretical and institutional framework aimed at reconciling existing purely accounting approaches with the United-Nations new proposals for a sovereign debt more respectful of the living conditions of present and future generations. The chapter reaches the sustainable development literature founded on the interweaving of three spheres which are economic, social, and environmental. Indeed, the sovereign debt issue has been anchored in this three-dimensional logic thanks to the United-Nations doctrine in this field. Beyond its economic, social, and cultural effects, the international financial system stability is dependent on sovereign debt issues in DCs.

The chapter is organized into three sections: The first one identifies the limits of the traditional sovereign debt framework and demonstrates the inadequacies of its measurement tools. The second section focuses on social sustainability as an alternative approach (Berr & Combarnous, 2007). Nevertheless, the lack of a rigorous theoretical framework on the one hand and the irrelevance of the indicators and measurement tools on the other, greatly limit the scope of the social sustainability approach (Raffinot, 2013).

Finally, the last section deals with the question of the relevance of the approach by the *social acceptance* of the sovereign debt, i.e. the effective capacity of a government to raise taxes or reduce transfers, without any social movement or troubles (Villieu, 2011). In this context, the choice concerned a small developing country, Tunisia. Indeed, since the revolution of 2011[3], the growing social requirements for auditing Tunisian sovereign debt revive the question of to what limit the population can accept the burden of public debt having contributed to their impoverishment and subjugation (Legrand, 2016; Merckaert, 2012; Toussaint, 2016b).

SOVEREIGN DEBT: THE INADEQUACIES OF THE THEORETICAL FRAMEWORK AND THE LIMITS OF THE MEASUREMENT TOOLS

The chapter deals with a slippery concept that is "sovereign debt". Numerous definitions do exist, including the national government's debt, the central government's debt, and public debt in foreign currencies. While some consider sovereign debt to include just liabilities of the central government, other extend the concept to the central bank debts. In some cases, the term sovereign debt is interchangeably used by the terms of public debt or government debt (Abbas, Pienkowski & Rogoff, 2019).

In this chapter the sovereign debt means a central government's debt issued in a foreign currency to finance public deficits. The chapter does not make a distinguishing between sovereign debt, government debt, public debt, or national debt. Moreover, the chapter deals only with the external debt issued in the international financial markets and borrowings from IFIs (World Bank, European Investment Bank, African Development Bank, etc.) as well as bilateral loans, and loans from foreign commercial banks. Indeed, the choice of the external public debt issued in foreign currencies seems to be more relevant in

the specific case of developing countries. In fact, in these economies, central government debt is mostly external since the domestic market financing capacity is limited. Moreover, only the reimbursement of foreign debt service that could pose a problem of social sustainability.

To solve the sovereign debt crisis in developing countries, three competing approaches dominate the debate nowadays (CNUCED, 2015). First, the contractual approach founded on market mechanism that advocates an improvement in the existing framework. Second, the institutional approach that defends the institutionalization of non-binding principles of law, such as sovereignty, legitimacy, transparency, good faith, or debt viability. And third, the juridical approach targets the elaboration of a legal and institutional framework that will be binding and universally applicable to all parties.

Seeking for solutions outside the economic sphere certainly reflects the complexity of the issue and its multidisciplinary nature. Moreover, it demonstrates the inadequacies and the inability of the market approach to solve the problem of sovereign debt mainly in developing economies. In this section, we identify the main limitations of the existing sovereign debt framework.

The Agency Theory Ignores the Specificity of Sovereign Debt as a Contract

The contractual approach based on market mechanisms considers the sovereign debt as a contract between two parties, the debtor and creditor (Roos, 2019). While the former seeks funding at a lower cost, the latter cares about optimal repayment conditions, given the borrower's level of risk. Consequently, the resolution of problems related to such contracts should focus on providing incentives to respect the reimbursement conditions initially agreed upon by both parties.

This vision, modeled on private finance, has its roots on the agency theory. Jensen and Meckling (1976) defined the agency relationship as a contract by which one or more persons, named the principal, hires another person, the agent, to perform on his/her behalf any task that involves delegation of certain powers of decision to the agent. As a result, the agency relationship is general and may cover any contractual relationship between individuals or groups of individuals or even states.

The main corollaries of the agency theory are the following: (1) The contracts which bind the parties are inevitably incomplete; (2) in order to control the agent's action, the principal necessarily incurs agency costs; (3) in any agency relationship, problems of moral hazard and adverse selection may occur.

In the agency relationship, problems arise when the interest of both parties (i.e., principal and agent) diverge or in a context of imperfect information, mainly of information asymmetry. Thus, the objectives of the agency theory are: (1) Defining the incentives and monitoring mechanisms enabling the principal to compel the agent to act in such a way as to maximize the utility function of the principal; (2) reducing information asymmetries, in order to tend towards the market allocative efficiency advocated under the perfect information assumption.

Nevertheless, the agency theory seems to ignore the nature of the sovereign debt's contract between two entities that do not have necessarily the same economic or political weight. It also ignores the lack of reliable incentive mechanisms between agent and principal in this specific contract.

According to the agency theory, sovereign debt is an incomplete contract established in a context of information asymmetry. By its nature, it exposes the parties to the problems of adverse selection and moral hazard. To reduce these problems, the sovereign debt's contract should provide incentives and monitoring. Without these mechanisms, the contract cannot allow to allocate resource efficiency.

The relationship between the sovereign debtor and its international creditor highlights the incompleteness of the contract, thus opening the door to opportunistic behavior on the part of both party's

ex ante and *ex post*. In fact, the sovereign debtor would be tempted to cheat as its ability to honor its financial commitments. Also, the sovereign debtor would try to reduce its credit spread and financing costs by any means. Faced with a problem of anti-selection within a framework of limited rationality, the international creditor cannot optimize its investment decision. In addition to problems of moral hazard, the creditor would be encouraged to make the debt contract increasingly asymmetrical by introducing incentive mechanisms in its favor.

Moreover, at the macroeconomic level, the solvency condition, could not be applied to sovereign debt contracts, particularly when debt is contracted in foreign currencies. Really, the Government remains the most reliable borrower in an economy: Its debt securities are reputed for their liquidity and are the benchmark for pricing other securities. When the sovereign debt is contracted in local currency, the government has the option to monetize this debt, thus reducing any insolvency risk. However, when the debt is denominated in foreign currencies, the Government could be unable to honor its commitments. Thus, the dual specificity of the foreign public debt contracted in foreign currency and its intrinsically riskier nature.

The Measurement Tools Lack Relevance and Reliability

The recurrent sovereign debt crises in both developed and developing countries have demonstrated the limitations of the measurement tools used.

The Lack of Relevance and Legitimacy of the Analysis by Debt Level Threshold

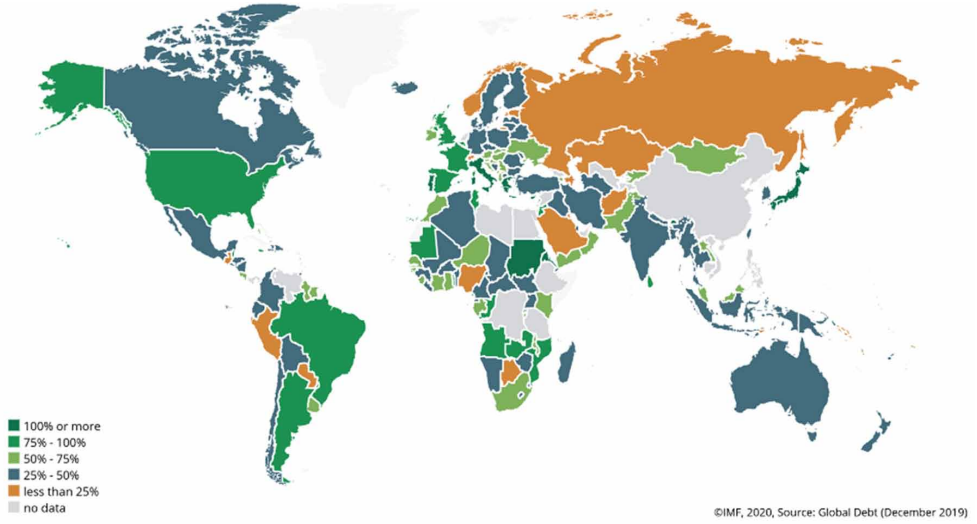
The most used indicator for assessing the weight of public debt is the ratio of debt to gross domestic product (GDP). It determines the burden of the central government debt's stock relative to the wealth created in the economy over a year.

Statistics in figure 1 show that both developed and developing countries can experience high levels of public debt. In 2018, countries such as the United States, Japan, Belgium, Greece, Italy, and Portugal recorded public debt rates above 100% of GDP. Paradoxically, developing countries experience lower levels of public debt.

The analysis of levels where sovereign debt is summarized in a ratio (that of the level of public debt to GDP) seems to be irrelevant and lacks legitimacy. Admittedly, it is a simple and operational tool that synthesizes the debt problem into a prudential ratio. However, its arbitrary character makes it less and less credible (Aglietta, 2011; Chavagneux, 2012; Humbert, 2016).

The debate, traditionally focused on debt levels, should be redirected to the public debt structure. The problem of public debt in DCs cannot be solved only by respecting sustainable debt thresholds. Some studies have demonstrated that on average, developing economies do not have public debt levels significantly higher than those of developed economies (Panizza, Sturzenegger, & Zettelmeyer, 2010). Cases of crisis in these countries with moderate level of debt lead to the conclusion that the debt structure plays a crucial role.

Figure 1. Central Government Debt (Percent of GDP, 2018)
Source: IMF, Global Debt, 2019



The Lack of a Normative Approach to the Analysis by the Debt Structure and in Terms of Affectation

Sustainability is not a fundamentally quantitative issue. The debt levels are important, but the sovereign debt structure (by currencies, interest rates, and maturities) plays a decisive role, as does its allocation, i.e., its affectation between investment and current expenditure.

However, these qualitative studies based on *a case by case* analysis do not allow international comparisons and reduce *in fine* the scope of the approach. The question raised at this level is whether it is possible to define an analytical framework that applies to all economies and allows for the prediction and just-in-time management of the sovereign debt crisis.

The Myopia of the Critical Gap Approach

The dominating economic approach of debt sustainability is based on analyzing the gap between the economic growth rate and the interest rate on public debt, named the *critical gap*. In fact, debt is a problem only if the real interest rate is higher than the growth rate (Aglietta, 2011; C.A.C., 2014; Sterdyniak, 2015).

Indeed, when the interest rate on the public debt is much higher than the economic growth rate, the gap between the two rates is large and positive. In this case, the condition of public debt sustainability implies a short-term consolidation of public finance. Nevertheless, a vicious circle can be established when the budgetary effort leads to a decline in the economic growth rate. Thus, will make the path of the future public debt unsustainable.

On the contrary, when the public debt interest rate is lower than the growth rate (i.e. the *critical gap* is negative), the public debt is sustainable. The growth rate of future tax revenues is higher than that of the debt service. According to the *golden rule* proposal of public finances, when the interest rate is equal to the growth rate, future primary surpluses grow at the same pace as the debt service.

Despite its relevance and legitimacy, the *critical gap* analysis is nowadays called into question, especially for its theoretical foundation based on the scrupulous respect of the solvency condition. According to the purely accounting view of public indebtedness, only the repayment capacity of the debtor is privileged in the financing decision (Hanlon, 2006; Ramasastry, 2007; Merckaert & Caliari 2007). Moreover, the social, cultural, political, and ecological impact on the populations involved in the public debt repayment process are totally ignored.

On the creditor side, the main question answered by the *critical gap* approach is whether the economic growth rate ensures the payment of the debt service. Meanwhile, on the debtor side, the critical gap approach indicates whether the contracted public debt benefits in terms of wealth creation is higher than its costs. The reasoning on both sides seems rather hasty and relatively too aggregated since all distribution problems are hidden. For example, the Tunisian sovereign debt before the 2011 revolution perfectly verified the solvency condition. With economic growth rates structurally higher than the real public debt costs, the Tunisian sovereign debt was undoubtedly sustainable from an accounting view. Nevertheless, under a dictatorial regime with an inequitable tax system, the most disadvantaged populations bear the burden of a debt benefiting a minority close to the regime. Definitively, it was the unfair distribution of the debt burden that made it unsustainable in the Tunisian case and led to the economic and social crisis of 2011.

The Sovereign Debt: The inconclusive Debate

During the last two decades, attempts to establish a comprehensive and coherent framework, in the case of a sovereign debt crisis, are still facing serious obstacles. Divergences in points of view remain. The gap is substantial between the viewpoint of the IFIs and some of developed countries on the one hand and that of the developing countries on the other hand.

First, on the lexical level, the two antagonists do not use the same words. While the former persists in using the term "restructuring" as the only solution to all problems of sovereign debt, the latter use a broader lexical field, distinguishing between odious, illegitimate, illegal, and unsustainable debt. Many authors, such as Jayachandran and Kremer (2006), Howse (2007), Yianni and Tinkler (2007), Nehru and Thomas (2008), Hanlon (2000, 2002, 2007), and Janus (2009) have been interested in this literature. Moreover, the latter suggests a broader range of solutions, starting with the debt audit and its restructuring until its partial or even total cancellation, as a last resort (Bailly & Toussaint, 2015; Vivien, 2010, 2015).

The gulf is far from being exclusively lexical. The opposite sides no longer belong to the same ideological framework. The defenders of the sovereign debt restructuring want at all costs to preserve the liberal doctrine and the approach by the market. Thus, according to this current of thought, any sovereign debt should be repaid, and in the case of a crisis, a restructuring plan would be negotiated. Although the proponents of this trend admit the limitation of the current framework, they believe that progress can only be made by the contractual approach and through the market mechanisms. On the other hand, under the auspice of the United Nations organization, many developing countries are challenging the current framework of sovereign debt. For some developing countries, the market approach is not only a failure, but also the origin of all sovereign debt problems in developing countries. According to the second current, sovereign debt should be simply cancelled in some cases. As a result, the sovereign debt crisis is a questioning of the well-founded of capitalist system.

This ideological divide can prove detrimental to the debate insofar as each of the antagonists speculates on the failure of the other. The proponents of the liberal approach consider the United Nations'

proposals to be unrealistic and consider the idea of a universal regime for the sovereign debt restructuring to be illusory (Destais, 2015b). Their opponents believe that the capitalist system has demonstrated its limits and it is time to think about alternative approaches in consultation with all the actors on the international scene.

Nowadays, it must be recognized that alternative proposals have not reached the maturity required to propose effective, sustainable, and operational solutions to sovereign debt problems. Despite its utopian approach, this current of thought has the merit of having made progress on the way of making a critical diagnosis of the current system. It has also broadened the debate to social and geopolitical considerations.

On the other hand, the liberal current justifying the sovereign debt crisis, mainly by the inadequacies of the legal framework, seems scarcely credible. In addition, the proposals of the liberal movement maintain little innovation, such as: (1) Revive the issue of the IMF proposals related to the states' bankruptcy, rejected in 2003; (2) Restate the rule recommended by the 2012 treaty creating the European Stability Mechanism (ESM), which makes the introduction of the collective action clause (CAC) mandatory in the euro-area bond issuances; (3) Provide for a restructuring arrangement in the original contract; or (4) Use international financing as leverage (Destais, 2015a; Sgard, 2003).

Ultimately, the specialists of the IFIs and some developed countries have been locked in the technical aspects of the subject. They have reduced the problem of sovereign debt to some contractual improvements by rejecting the alternative current and accusing it of politicizing the debate. No one can admit today that the sovereign debt crisis in the world is only the result of legal deficiencies.

SOCIAL SUSTAINABILITY AS AN ALTERNATIVE APPROACH: THE MERITS AND LIMITS

The debt sustainability analysis framework applied by the IMF (IMF, 2013 & 2018) is based on the stabilization on the debt to GDP ratio, while respecting the initial debt repayment conditions. This stabilization of the level of sovereign debt aims at restoring the confidence of financial markets, allowing the country considered access to market financing. Even, when it is established that sovereign debt is unsustainable, the IMF prefers restructuring as the ultimate solution to the problem. It considers that declaring to be in sovereign default is a particularly destabilizing option for the economy.

The IMF's new proposals for the sustainability analysis of sovereign debt appears to be below the various actors' expectations and mainly developing countries. Faithfull to its market approach, the IMF only recognizes the contractual framework for reflection. The IMF categorically rejects the institutional and jurisdictional approaches the United-Nations promote. The IMF also refuses acknowledging the shortcomings of the contractual approach. The IMF's major concern would be that of bringing together the economic and financial conditions of a full repayment of the contracted sovereign debt. The myopia of the market approach seems to be reiterated by all the sustainability analysis frameworks the IMF has developed. The creditor's responsibility in harmful or even impoverishing sovereign debt is not evoked in any way.

However, the international community's awareness about the limits of sustainability by debt thresholds has further advanced the debate to new approaches advocating social sustainability as the goal of sovereign debt management policies.

The approach of social sustainability seems to gain credibility under the combined effect of: (1) a strong United Nations commitment to the establishment of a sovereign debt framework that respects the

economic, social, and cultural rights of the populations; and (2) a determinism of the anti-globalization movements and some developing countries for the restructuring of the third world sovereign debt, particularly that which might be a major impediment to the development of these economies.

Recently, attempts have been made to refocus the debate on the question of external debt on the socioeconomic rights of indebted countries. The issue of sovereign debt in developing countries is treated from an entirely new perspective in which it is the co-responsibility of both debtor and creditor countries to address debt sustainability.

The contribution of lawyers and specialists in international relations, seems to be crucial in this area. This contribution is made at two different levels. First, from the conceptual point of view since the delimitation of the scope of the legitimate (versus illegitimate) debt was a sine qua non condition for rationalizing the debate. Second, at the level of the North-South relations, where the rise of demands by developing countries for increasingly balanced relations played a key role. Challenging the imbalance between creditor and debtor countries, originally introduced by the traditional approach of indebtedness, reflects this movement.

The United Nations' Role in Imparting Credibility to Social Sustainability

In 2009, the United Nations organization commissioned an independent expert to examine the effects of external debt on the economic, social, and cultural rights of developing countries. In its initial report[4], the independent expert argues that creditor and debtor countries are equally responsible for the prevention and resolution of unsustainable debt.

In the version submitted to the general assembly of the United Nations[5], the report emphasizes that the principle of co-responsibility of debtors and creditors is the heart of an equitable global financial system. Consequently, and in accordance with the principle of shared responsibility, it is important that lenders consider the extent to which they contributed to the indebtedness of developing countries and recognize their responsibility in this regard.

Nevertheless, the implementation of co-responsibility faced several obstacles. Indeed, the key element of the shared responsibility idea remains that of defining the "illegitimate" debt concept according to universally accepted criteria. This task is nowadays far from being achieved.

At the same time, the United Nations Conference on Trade and Development (UNCTAD) was initiated in 2009 as a project to encourage responsible practices in public debt. In 2012, the project resulted in the publication of a set of *principles for promoting responsible sovereign lending and borrowing*. These principles constitute a charter of good conduct that engages both sovereign borrowers and their lenders. Nevertheless, UNCTAD's contributions (2008, 2012, and 2015) remain purely normative, reiterating some international law principles such as transparency, sovereignty, good faith, and consultation and cooperation between borrowers and lenders in crisis cases. Without any binding effect, the UNCTAD principles remain limited in scope.

In recent years, there has been an increasing awareness of the stakes involved in sovereign debt sustainability. Many United Nations conferences and resolutions[6] led to the adoption of the resolution number 69/319 on *basic principles of the sovereign debt restructuring process*[7] in September 2015. In addition to the traditional principles that it has reiterated, the resolution emphasized the viability condition as a fundamental principle of the sovereign debt management processes. According to this principle, restructuring negotiations should lead to debt stabilization, while preserving creditors' rights, and promoting economic growth and sustainable development in the debtor country. The United Nations

resolution puts the matter of sovereign debt sustainability in its multi-dimensional context, by defending the objectives of minimizing socioeconomic costs and ensuring the international financial system stability with respect to human rights.

The Determinism of the Anti-Globalization Movements and Some Developing Countries' Governments

An increasing number of non-government organizations (NGOs) and citizens' movements are federating around the idea of sovereign debt cancellation in developing countries. However, two currents do exist within the international campaign against debt. The former is much more critical toward to the capitalist system. This current argues that the cancellation of the third world debt should go hand in hand with the question of undermining the international financial architecture. This trend is driven mainly by the Committee for the Abolition of the Illegitimated Debt (CADTM)[8], the Citizen Network for the Abolition of the External Debt (RCADE)[9], and Jubilee South[10]. Some of the proponents of this first trend go further and submit that debt cancellation should be the norm, not the exception. Lenders should assume responsibility for illegitimate, illegal, and odious loans in the same way as borrowing countries (Hanlon, 2006; Toussaint, 2016a; Vivien, 2010, 2015).

On the other hand, the defenders of the second current tend to favor debt relief of poor and developing countries. But they do not call into question the international financial architecture and the IFIs' role. This is particularly the case in some developed countries such as Norway and Belgium.

Social Sustainability an Interesting Idea, but Lacks Scientific Rigor

The international community's awareness of the limits of sustainability through debt thresholds has shifted the debate towards new approaches advocating social sustainability as the ultimate objective of external public debt management policies. In recent years, attempts have been made to refocus the debate on the effects of foreign debt on the socioeconomic rights of indebted countries. The issue of developing countries' indebtedness is currently being addressed from a new perspective that of the co-responsibility of creditor and debtor countries in debt sustainability.

Nowadays, it is more than necessary to reconsider the purely accounting view of debt sustainability, particularly through questioning methodological choices and measurement tools. The "classic" indicators of public external debt seem to lose their relevance, particularly with the recurrence of the sovereign debt crisis. Developed according to rather asymmetrical construction logic, considering only the point of view of the creditors, the official indicators have become insufficient or even obsolete. Indeed, the usual indicators of the public debt have as an ultimate objective to assess a country's ability to repay its debt. This is possible either through the wealth created by the economy measured by the GDP or by the export earnings allowing for the direct reimbursement of the external debt service.

The report of the United-Nations independent expert (2009) develops the idea of debt sustainability based on the definition of a trade-off between debt servicing and a minimum level of public expenditures for the benefit of the population. The report is quite explicit on this issue. It suggests that "*any concept of debt sustainability should include an assessment of the minimum amount of expenditures necessary for a government to meet its obligations to its citizens, including the provision of basic social services such as health and education*". However, he seems to go beyond this purely accounting and relatively

reductionist view of debt sustainability, adding that "*human rights should be used as a criterion for assessing debt sustainability and cancel all unsustainable debts*".

The most widespread idea of unsustainable debt is that of a debt whose repayment has over time become problematic. Indeed, the concept of non-sustainability is quite often reduced to situations where debt servicing becomes so excessive as to condemn the population concerned to impoverishment and worsening living conditions (health, public education, unemployment, undernourishment, etc.). Indeed, social sustainability approaches are based on the idea that the level of debt (quite often debt service) can become excessive and force to reduce expenditures deemed necessary.

Many studies, including that of Berr and Combarnous (2007), advocate for a synthetic indicator of debt sustainability in the image of the human development index (HDI) proposed by the United Nations' development program. The debt sustainability index (DSI) is a synthetic indicator that takes into account three aspects of the debt problem: (1) the ability of the indebted country to fulfill its commitments to creditors as measured by the ratio of debt service to the amount of exports; (2) the social debt burden on populations as measured by the per capita debt service; and (3) the substitution of debt repayment for economic and human development of the country, measured by a composite index reporting debt service to investment expenditures mainly on public health and education.

New multi-dimensional indicators incorporating the impact of the burden of debt reimbursement on the well-being of populations and the living conditions of future generations could improve our perception of the social sustainability of sovereign debt.

Beyond methodological considerations related to indicators and measurement tools, a revision of the theoretical framework is also required. The study of Guillard and Kempt (2012) examined the question of sovereign debt sustainability in the context of a macroeconomic model integrating the interactions between monetary and fiscal policies as well as the possibility of sovereign default. The authors argue that at the threshold of unsustainability, although the market continues to affect a positive probability of full debt repayment, the required risk premium weighs heavily on the public account, so that the default becomes inevitable, all things being otherwise equal.

SUSTAINABILITY BY THE *SOCIAL ACCEPTANCE* OF THE SOVEREIGN DEBT

Faced with the failure of purely accounting approaches of sovereign debt, the debate is increasingly redirected towards the social sphere. The *social acceptance* of sovereign debt and its burden is a sine qua non condition of debt sustainability. The sovereign debt is, according to this vision, a social contract in which the citizens' consent is a condition for the validity. Under undemocratic regimes such as those in developing countries, the consent condition seems seriously compromised. The sovereign debt unsustainability arises in these cases from a defect of the *social acceptance* condition.

The *Social Acceptance* of the Sovereign Debt in the Case of Developing Countries

Nowadays, in many developing countries, the *social acceptance* of the sovereign debt may be questioned. The economic literature (Sack (1927), Hanlon, (2002, 2006 and 2007), Jayachandran and Kremer (2006), Howse (2007), Nehru and Thomas (2008) and Janus (2009)) recognizes that a number of the sovereign debt in developing countries may be odious. Indeed, certain debts were granted to dictatorial regimes

to repress their population and to enable the enrichment of a minority close to those dictatorships. In some cases, the sovereign debt in developing countries is illegitimate since it has not been contracted for the general interest. It is, in other cases, illegal since it was contracted without any respect for law. Finally, in many cases, the sovereign debt is unsustainable because its repayment damages the living conditions of the population and compromises the future of young generations. The silence of the international community, including the IFIs and international lenders concerning the sovereign debt in these economies, is a time bomb.

The example of the Arab Spring countries, mainly Tunisia and Egypt, is quite instructive in this regard. Indeed, people raised in 2011 signed a failure act against programs conducted by the IFIs in the countries of the region for many decades. In December 2011, the IMF president recognized the responsibility of the international institutions in the deteriorating economic and social situation in the countries of the Arab Spring. A social unsustainability That led to the revolt of populations:

As for the IMF, we certainly warned against the time bomb that is the high youth unemployment in the region, but we did not fully anticipate the consequences of unequal opportunities… have not been sufficiently attentive to sharing the fruits of growth.[11]

Tunisia: The Case of a Strangled Economy of the Sovereign Debt

In 2019, the level of Tunisian public debt exceeded 75% of GDP, a record level never reached since the 1970s. Figure 2 related to the evolution of public debt shows a strong increase since 2010. Indeed, the Tunisian public debt had almost doubled in ten years. It rose from 40% of GDP in 2010 to more than 75% in 2019. Moreover, Tunisian's debt to GDP ratio exceeds the emerging market debt burden benchmark of 70% of GDP, which could alter investor confidence. IMF stress tests confirmed the vulnerability of the country's public debt to interest rate risk, growth shock and real exchange depreciation (IMF, 2020).

The upward trend in the public debt-to-GDP ratio over the past decade is not a characteristic fact of only developing countries such as Tunisia. Figure 3 shows that many developed countries such as Japan, the United States, Italy, and France experienced the same upward trend. Nevertheless, Germany had been able to control, even reduce its public debt ratio over the past ten years. The sub-prime crisis that leads to recovery policies in many of these countries could explain this increase trend.

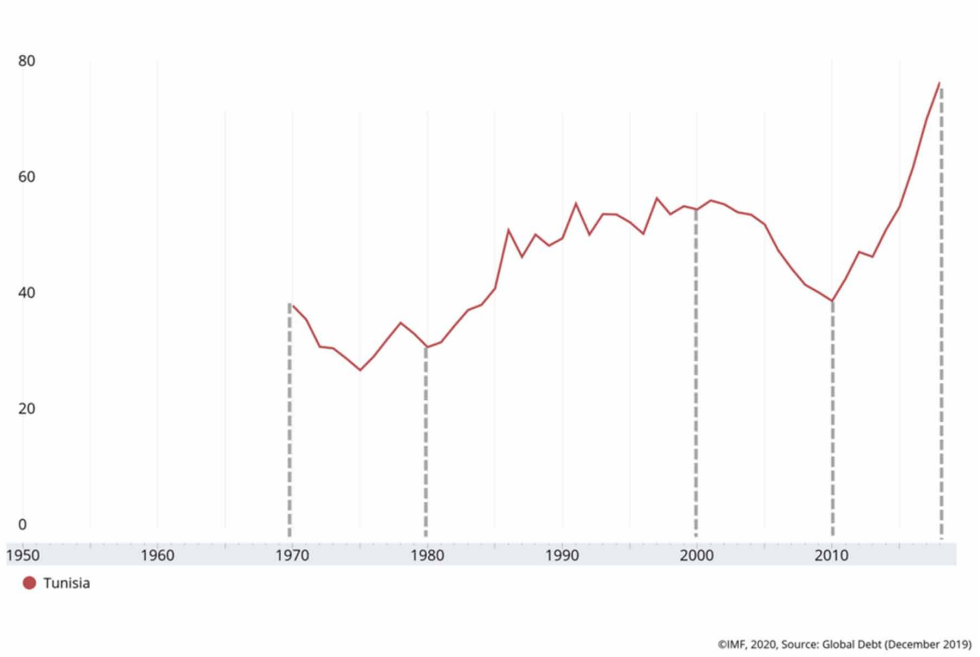
Figure 4 makes a comparison between Tunisia and some countries in the Middle East and North Africa (MENA) region. In fact, Tunisia's public debt-to-GDP ratio is significantly lower than that of Lebanon, who seems to present a structural problem of sustainability. Nevertheless, from 2017 and for the first time since the end of the 1970s, Morocco surpasses Tunisia in terms of public debt control. Over the past decade, only Turkey has experienced a downward trend in its public debt ratio.

The Historical Dimension of the Sovereign Debt Issue in Tunisia

The colonial history of Tunisia was marked by the role of debt as an instrument of domination and alienation of its sovereignty (Legrand, 2016; Toussaint, 2016b). The 1881 treaty of Bardo, placing Tunisia under a French protectorate, decreed in its article 7:

The government of the French Republic and the government of his highness the Bey of Tunis reserve set by common agreement, the foundations of a financial organization of the Regency, which is likely to ensure the public debt service and to safeguard the rights of Tunisia creditors.

Figure 2. Tunisian Central Government Debt (Percent of GDP)
Source: IMF, Global Debt, 2019



Nowadays, the sustainability of the Tunisian sovereign debt is increasingly problematic. The choice made by successive governments since 2011 not to conduct an audit to determine the unsustainable, even odious, character of the accumulated sovereign debt since the late 1980s seems more and more harmful to the Tunisian economy. The Tunisian debt service's climbing as well as the irrelevance of the financial management policy have made public debt unsustainable. Indeed, sovereign debt seems strangling the Tunisian economy and jeopardizing the development opportunities and progress for future generations. Illustratively, and according to the 2020 annual budget act, debt service is the first expenditure of the budget of the Tunisian State[12]. It weighs more heavily than the accumulated budgets of health, social affairs, employment and vocational training, development and international cooperation, transport, culture, foreign affairs, and tourism.

In addition, the deteriorating quality of public services, particularly in health and education areas as well as the degradation of infrastructure, is evidence of inefficient public debt management in Tunisia. The Tunisians are today convinced that the public debt, the weapon that put Tunisia under protectorate in 1881, is again being used against their interests. The economic reforms imposed by international institutions and qualified painful by the head of the Tunisian executive branch in August 2016[13], recall the decisions of a headlong rush taken by the Beylical power in the late 19th century.

Figure 3. Tunisian Central Government Debt Compared to Selected Developed Countries (Percent of GDP)
Source: IMF, Global Debt, 2019

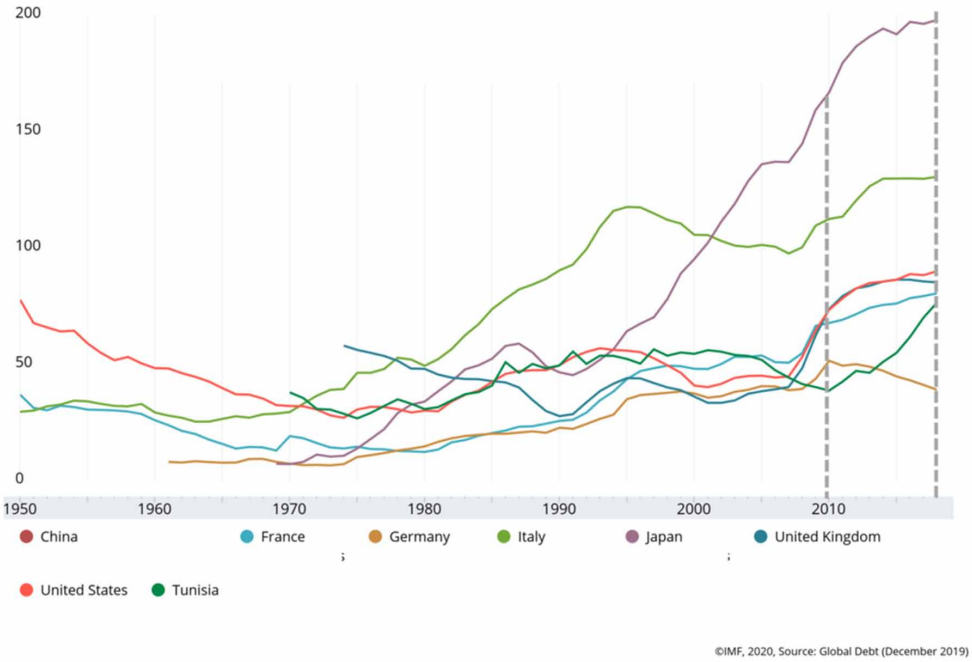
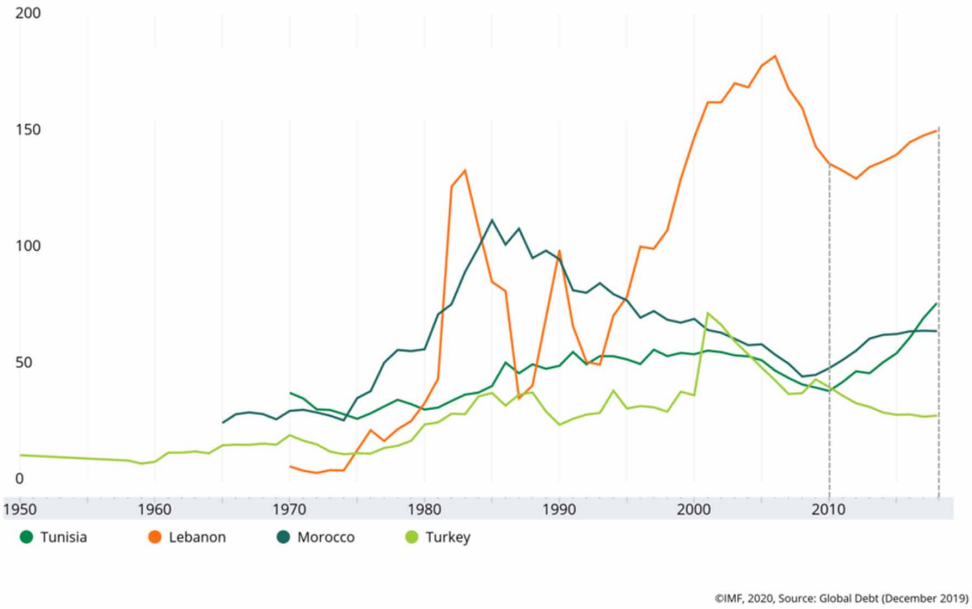


Figure 4. Tunisian Central Government Debt Compared to Selected MENA Countries (Percent of GDP)
Source: IMF, Global Debt, 2019



The Tunisian Civil Society's Role in Giving Credibility to Social Approaches of Sovereign Debt

Since 2011, the Tunisian civil society has been proactive in streamlining the political transition process. Nowadays, civil society initiatives have multiplied in the economic and social fields. Indeed, the authorities are struggling to rethink the economic and social model and propose fundamental reforms that could bring the country out of crisis.

Thus, in 2015, a campaign[14] for the audit of the Tunisian public debt was initiated by the association RAID-ATTAC- CADTM Tunisia, supported by some members of parliament and opposition parties[15]. In 2016, the movement led to the tabling of a bill to create a truth commission on the Tunisian public debt, backed by more than 70 MPs[16].The international CADTM network supported this proposal aiming to establish a committee for the audit of the Tunisian sovereign debt since 1986, when the first structural adjustment program (SAP) was imposed by the IMF.

The bill introduced before the Tunisian parliament had little chance for success since the movement for the audit of the debt was in the minority. Nevertheless, it was a step forward insofar as it gave credibility to citizen initiatives. It was also a step in the right direction. Indeed, to solve the sovereign debt problem, the audit may be both a prerequisite and a guarantee of a possible fair and balanced restructuring.

In 2009, the independent expert the United Nations reported that the audit provides a valuable analysis tool to determine the nature of the debt of a country. However, beyond its direct objective, namely to establish with certainty the original conditions in which the loan contract has been established, the debt auditing would be a means of assessing (1) the social and ecological consequences of the debt; (2) the development conditions of the borrowing country; and (3) in terms of respect for human rights.

In addition, the independent expert's report (United Nations, 2009) went further in the direction of consolidating auditing practices for sovereign debt by also encouraging creditors conduct audits of their loan portfolios. In the latter case, the objective was twofold: First, to examine the validity of the developing countries' claims of illegitimate debts; secondly, to ensure that the existing loans contribute to the achievement of development goals with respect for human rights.

The United Nations' doctrine also encourages developing countries' creditors to audit their loan portfolio. Recognizing the right of both debtors and creditors to use a debt audit, it could be beneficial to depoliticize the issue. Introducing the audit as a rule in the international indebtedness game, both known and accepted by players, could contribute to streamlining the process of sovereign debt. Auditing debt could now help creditors in their investment choices to penalize the less credible debtors.

The United Nations' contribution in this field is significant at two different levels: (1) Two types of audits are admitted, namely an ex-post audit and a concomitant audit; (2) the audit is not the privilege of either party at the expense of the other; indeed, not only debtor countries could conduct public debt auditing, but also their creditors are encouraged to audit their respective loan portfolios. Auditing debt could thus become a political neutral rule of the international indebtedness game.

In 2017, at the end of his mission in Tunisia[17], the United Nations' independent expert on the effect of foreign debt[18] argued that better control of lending and borrowing operations, transparency, and public participation are crucial to ensure that public resources are allocated to the realization of human rights and sustainable development goals. In the case of Tunisia, he argued that:

there must be a responsibility for the serious financial crimes under Ben Ali, as well as the intermediaries who facilitated the flows of illicit funds. The role of foreign lenders and donors who have financially supported the regime of Ben Ali, should be examined[19].

CONCLUSION

This chapter focused on a topical issue that is at the heart of economic and financial analysis, namely, the sovereign debt sustainability in developing countries. The diagnostic done so far demonstrates the various approaches limits. The current framework leads to a fragmented view of the sovereign debt in general and in the specific case of developing countries. The authors believed that the analysis could be enriched by an openness to social disciplines through integrating two basic components, namely social sustainability, and *social acceptance* of sovereign debt.

In this chapter, the authors suggested rethinking the sovereign debt, trying: (1) to explain why economists and practitioners know so little about sovereign debt; (2) to understand the causes and issues of failed attempts, to resolve the sovereign debt problem in developing countries; and (3) to consider alternative approaches to solving the problems of sovereign debt, which are relevant, credible, and operational.

In terms of economic policy, the chapter leads to some implications for public debt management. It shows the need for developing countries: (1) ensuring comprehensive management of public debt from the point of view of both the indebted countries and their creditors; (2) borrowing in priority to finance the most productive investment expenditures, which can have an impact on the standard of living of the population and on economic growth; and (3) reducing the use of austerity programs and anti-social policies.

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ENDNOTES

1. The Sovereign Debt Restructuring Mechanism (SDRM), promoted without any success by Anne Krueger, deputy managing director of the IMF, in 2002.
2. Particularly, the resolution 69/319 on the basic principles on sovereign debt restructuring processes, adopted in September 2015.
3. The revolution of January 14, 2011.
4. Report submitted to the council of human rights in 2009 under the reference (A/HRC/11/10)
5. Report submitted to the general assembly of the United Nations in 2009 under the reference (A/64/289)
6. Mainly resolutions 64/191, 65/144, 66/189, 67/198, 68/202, 68/304, 69/247 and 69/319

[7] The UN resolution 69/319 on basic principles on sovereign debt restructuring processes was adopted in September 2015. While 136 Countries voted for the resolution, 6 (USA, UK, Germany, Canada, Japan, and Israel) voted against. Furthermore, there were many (41) abstentions. The resolution was initiated by Argentina and submitted by South Africa.

[8] The CADTM network was founded in 1990 in Belgium. By the mid-1990s, CADTM was developed in some Northern countries such as Switzerland, France, and Japan and in South America, especially in Latin America, then in Africa and Asia. The CADTM's main claim is that of total and unconditional cancellation of the illegitimated external public debt of developing countries.

[9] A Spanish Citizen Network for the Abolition of the External Debt founded in 1999

[10] Founded in 1999.

[11] IMF, 2011: "Le printemps arabe, un an plus tard," the IMF managing director, Christine Lagarde, December 2011.

[12] The 2020 Finance Act provided a total public debt services of 11,678 million TND.

[13] In its official declaration in the Tunisian parliament on August 26, 2016.

[14] The campaign "right to know about the debt of the dictatorship, auditing debt, giving a chance to Tunisia."

[15] RAID-ATTAC CADTM Tunisia is an active anti-globalization association in Tunisia since 2011.

[16] Mainly the Popular Front.

[17] From 20 to 28 February 2017.

[18] The independent expert on the effects of foreign debt and other related international financial obligations of states on the full enjoyment of all human tights, particularly economic, social, and cultural rights.

[19] Tunisia: Human rights should forge economic policies, according to the United Nations' expert. UN News Center, February 28, 2017.

Chapter 29
The Effect of Defense Expenditures and Peace on Economic Growth:
Evidence From European Union Transition Economies

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ABSTRACT

Throughout history countries have tried to gain power in order to get advantages for the issues such as providing territorial integrity, social security and internal and external security. As a result of this power-gaining race, defense expenditures had a significant place in countries' economies. In its broad sense, defense expenditures are defined as the share reserved from the national income for the country's defense in order to provide internal and external security of the state and maintain the order and safety of the community. The size of defense expenditures varies from country to country for various reasons. In this study the effect of defense expenditures and peace as a global public good on economic growth was analyzed in 11 European Union countries (transition economies) between 2007 and 2017 with the help of panel data analysis. As a result of the study it was found out that there was a positive relationship between economic growth and defense expenditures. However, a negative relationship was identified between economic growth and peace level.

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INTRODUCTION

It is a difficult process to identify the importance of human needs. Because to what extent human needs are based on individual benefits varies from one country to another. Although the importance of these needs varies from person to person, due to these differences, the needs such as eating, drinking, dressing and shelter in general are very important. Besides these needs, the basic needs of people are the ones for living in confidence. People, depending on their desire for living securely and freely, behave very careful about protecting territorial integrity of their state. This necessitates a series of expenditures by states for their border security, territorial integrity and sovereignity, whatever their economic condition is. These expenditures are defined as defense expenditures.

Along with the increases in defense expenditures following World War IIdefense service was accepted as the most important task of a state and it was considered as a public good. The state undertakes various expenses in order to fulfill the task of defense service. Considering that the share allocated to defense service in terms of covering the related costs has an effect on the country's budget and real economic variables, the economic aspect of defense service is considered as an important topic of discussion in the literature. The relationship between defense expenditures and economic growth is the focus of discussions and different views.

There are two different approaches expressing the relationship between defense expenditures and economic growth. These are Military Keynasian Approach and Neo-Classical Theoretical Approach(Giray, 2004: 189).

According to Military Keynasian Approach, the effect of defense expenditures on economic growth is based on positive externalities. As the defense expenditures increase, they may have a significant multiplier effect. The demand created following defense expenditures increases the capacity use and enlarges the output level. As a conclusion defense expenditures increase the capital gain rate, investment and growth (Looney, 1994: 46-47).

Since the Neo-Classical Theoretical Approach often considers defense expenditures as non-productive, there are wide range of discussions on defense expenditures due to the variety of expenditures that can be carried out instead of such expenditures and the benefits to be obtained as a result of these expenditures. It is suggested that transfering the resources that can be allocated to economic activities to defense expenditures would prevent the economic growth (Gökbunar, 2004: 161).

With reference to these discussions the relationship between defense expenditures and peace and economic growth was analyzed in this study. Since peace is a globalgood, the domestic defense expenditures of states will be limited. Because countries are easily affected by each other in a globalizing World, it is necessary to make material and nonmaterial efforts for world peace because defense expenditures of states for themselves are not sufficient.

In this study the effect of defense expenditures and peace on economic growth was analyzed in transition economies including 11 European Union countries(EU) between 2007 and 2017 by using panel data analysis. These 11 countries are Bulgaria, Czechia, Estonia, Croatia, Hungary, Poland, Slovakia, Slovenia, Romania, Latvia and Lithuania which are in the former Socialist block. In the analysis empirical results were obtained through cross sectional dependencytest, panel root test (Pesaran, 2007; Paseran & Yamagata; 2008) homogenity test, panel cointegration test (Westerlund & Edgerton (2007) and panel FMOLS test, panel causality test (Emirmahmutoğlu & Köse, 2011). A general evaluation was made depending on the findings in conclusion section of the study.

LITERATURE REVIEW

In literature we can see many studies analyzing the effect of defense expenditures on economic growth. These studies generally analyze the relationship between defense expenditures and economic growth (There is negative, positive or no relationship). We can see that the relationship between defense expenditures and economic growth was negative (See. Lim (1983), Heo and Derouen Jr (1998), Menla Ali and Dimitraki (2014), Künü, Hopoğlu and Bozma (2016)), and in some studies it was concluded that defense expenditures affected the economic growth positively (See. Özsoy (2008)). There are also some studies resulting that there is no relationship between defense expenditures and economic growth (See. Gökbunar (2004), Mintz and Stevenson (1995)).

The empirical literature which analyzes the effects of defense expenditures on economic growth is as follows.

Benoit (1978) in his study investigated the relationship between defense expenditures and economic growth in developing 44 countries between 1950 and 1965 using 3 staged Least Squared Method, multivariate regression method and correlation analysis. He mentioned about the relationship between excessive defense load and rapid growth and small defense load and slow growth and concluded that defense expenditures had a positive effect on economic growth.

Lim (1983)in his study established a Harrod-Domar type of growth model and aimed to detect the relationship between defense expenditures and economic growth in underdeveloped countries between 1965 and 1973. As a conclusion, he found out that defense expenditures generally had a negative effect on economic growth although regional differences were observed.

In a study by Lebovic and Ishaq (1987) using traditional 3 simultaneous equation models the effect of defense expenditures on economic growth in developing 20 countries between 1973 and 1982 was analyzed. It was concluded in the study that defense expenditures had a negative effect on economic growth.

Mintz and Huang (1990) in their study aimed to indicate and empirically identify the direct and indirect, instant and delayed effects of the changes in defense expenditures on economic growth in the USA between 1953 and 1987 using flexible accelerating model. They determined that decreasing the military expenditures in long term increased the investments and this affected the economic growth positively for 5-year of process.

Mintz and Stevenson (1995) in their study analyzed the relationship between military expenditures and economic growth for 103 countries between 1950 and 1985 using 3 sector Feder Type of model. They concluded that the effect of military expenditures was not significant although the effect of expenditures out of the military expenditures was positive in many countries.

Heo and DeRouen Jr (1998) in their study analyzed the relationship between defense expenditures economic growth and technological change for 5 Southeastern Asian countries between 1961 and 1990 using Nonlinear Least Squares (NLS) method. As a result they found a positive relationship between defense expenditures and technology, but a negative relationship between defense expenditures and economic growth.

Kollias and Makrydakis (2000) in their study tried to identify the causality relationship between military expenditures and economic growth in Greece between 1955 and 1993 using Granger causality test. As a result, they found no causality between military expenditures and economic growth.

Dunne et al. (2001) in their study aimed to identify the effect of defense expenditures in Turkey and Greece on economic growth. As a result of the study they concluded that the relationship between defense expenditures and economic growth in Greece was positive, but it was negative in Turkey.

Karagöl and Palaz (2004) tried to identify the direction of causality between GDP growth defense expenditures of Turkey between 1995 and 2000 using unit root, cointegration and Granger causality tests. As a resut they identified a one-directional causality from defense expenditures to the growth.

Yakovlev (2007), Solow and Barro analyzed the effect of military expenditures and net arms export on economic growth between 1965 and 2000 in 28 countries using growth models.As a result, a negative relationship was found between military expenditures and economic growth and net arms exports and economic growth. It was also concluded that their interaction with economic growth was positively correlated.

By using linear and nonlinear Granger causality tests the relationship between defense expenditures and economic growth in Turkey between 1949 and 2004 was analyzed by Karagianni and Pempetzoglu (2009). As a result, a nonlinear causality was found between military expenditures and economic growth in Turkey.

By using panel data analysis Dunne and Nikolaidou (2011) tried to find the relationship between defense expenditures and economic growth in 15 European countries between 1961 and 2007. They concluded that defense expenditures did not support economic growth, in other words defense expenditures did not affect economic growth positively.

Mosikari and Matlwa (2014) in their study investigated the relationship between defense expenditures and economic growth in South Africa between 1988 and 2012 using Johansen cointegration and Engle-Granger applications. As a result they identified a long term relationship between defense expenditures and economic growth.

Künü, et al. (2016) investigated the relationship between defense expenditures and economic growth for 12 Mid-Eastern countries with the help of the data of 1998-2012 period using panel data analysis. As a result they concluded that defense expenditures had a negative effect on economic growth slowing down in internal and external fighting periods.

Durgun and Timur (2017) in their study analyzed the relationship between defense expenditures and real GDP of Turkey between 1970 and 2015 using Granger causality test. As a result, it was determined that there was a long term causality between defense expenditures and economic growth.

Sinha, et al. (2018) in the study analyzed the dynamic relationship between defense expenditures and economic growth of developing and developed countries in the world between 1960 and 2015 using panel cointegration test and then panel VAR test. They concluded that defense expenditures of developed countries had positive effects on economic growth.

It is generally possible to classify the studies analyzing the effects of peace level and the factors affecting the peace level as positive, negative and no relationship. It was found out that the relationship between peace level and economic growth was generally positive (See. Bayar and Gavriletea (2018), Deyshappriya (2015), Yıldız (2016)).

The empirical literature analyzing the effects of the peace level and the factors affecting the peace level on economic growth is as follows.

In a field study by Augustin (1992) the correlations between political instability and growth of Sub-Sahara Africa in 1960-1970 period were analyzed. The study resulted that political instability affected the economic growth negatively due to the qualified labour migration and the decrease in investments.

Easterly and Rebelo (1993) in their study analyzed the relationship between political instability and economic growth in 28 countries in 1970-1988 period using cross sectional analysis. At the end of the study they found no significant relationship between political instability and economic growth.

Asteriou and Price (2001) in their study tested the effect of political instability on economic growth in UK between 1961 and 1997 using time series analysis. As a result it was concluded that the instability would not affect the growth in itself.

Eckstein and Tsiddon (2004) analyzed the effect of terrorism on economy in Israel with help of 55-year of data using panel data analysis. As a result, they concluded that terrorism would have a significant effect on economic growth.

The allowed and potential mechanical effect of peacism in welfare was investigated in a study by Dinoy (2013) using Multivariate Logarithmical Linear Regression Model and Discrimination Analysis statistical methods. As a result, it was identified that external powers had no effect on economic growth.

Deyshappriya (2015) investigated the effect of corruption and peace on economic growth in 126 countries in 2008-2012 period using Kros analysis. It was found out in the study that corruption affected the economic growth per cepita negatively; however, it promoted the economic growth of the tested countries.

In a study by Yıldız (2016) the relationship between peace and development was tested empirically based on the annual data of 93 countries between 2007 and 2013 through panel data analysis using least squares method. As a result of the study it was determined that there was a linear and statistically significant relationship between socio-political stability, i.e. the presence of peace conditions and economic development.

Fareed, Meo, Zulfiqar, Shahzad and Wang (2018) in their study analyzed the asymmetrical relationship between tourism, terrorism and economic growth of Thailand between 1990 and 2017 using ARDL cointegration technique. As a result, they concluded that the positive and negative changes in tourism and terrorism affected economic growth significantly.

Bayar and Gavriletea (2018) in their study analyzed the interaction between economic growth, peace and terror in 18-20 MENA countries between 2008 and 2014 using panel data analysis. As a result they found out that peaceful environment had a positive effect on economic growth. In addition, a bi-directional causality was often found between peace and economic growth and terror and economic growth.

METHODOLOGY

The purpose of this study was to measure the relationship between defense expenditures and peace level and economic growth of 11 EU transition countries by using Panel Data Analysis method. First of all, the cross sectional dependency among the variables to be used in the study was analyzed in order to determine the econometrical tests. In case of no cross sectional dependency among the variables, first generation panel root tests, in case of cross sectional dependency among the variables second generation panel root tests will be conducted.

In the study cross sectional dependency test, CADF unit root test, Peseran and Yamagata (2008) homogeneity test, Westerlund and Edgerton (2007) cointegration test, Full Modified Ordinary Least Squares method (FMOLS) and Emirmahmutoğlu abd Köse (2011) causility tests were conducted respectively. Firstly, the information about the tests used in the empirical analysis was given and then the test results were presented and interpreted.

Cross Sectional Dependency Test

In order to get more accurate results we need to investigate the cross sectional dependency and homogeneity of variables before investigating the long term relationship between the variables in the studies in which Panel Data Analysis method is used. Critical correlations may occur between the sections in panel models with major time dimensions (T) and minor cross section dimensions (N) (Pesaran, 2004: 1). There may be some reasons for the incidence of cross sectional dependency in error terms. The first reason is the negligence of spatial and common effect in panel models, the other reason is the negligence of the interactions in socioeconomical networks (Chudik, Pesaran, 2013: 2).

When the probability value of cross sectional dependency test results is smaller than 0.05, H_0 hypothesis is rejected at 5% of significance level and it is concluded that there is a cross sectional dependency between series (Paseran, 2004).

The hypotheses of cross sectional dependency were as the following:

$H_{0:}$ There is no cross sectional dependency.
$H_{1:}$ There is a cross sectional dependency.

CADF Unit Root Test

Pesaran (2007) CADF test is an extended form of delay values of ADF regression with cross section averages and the first differences of the series. While the results belonging to CADF statistics and cross sections are obtained individually in CADF test, the results about the overall of the panel can be obtained through CIPS (Cross Sectionally IPS) statistics that can be extended by taking the averages of cross sections. CADF test enables the stationary analysis about the panel overall when it is Time (T) > Cross section (N) or $N>T$. The regression of model of CADF model is;

$$yit = (1 - \varnothing i)\mu i + \varnothing i\, yi,t-1 + uit \ (i = 1,\ldots,N;t = 1,\ldots,T) \quad (1)$$

$$uit = \gamma i\, ft + \varepsilon it \quad (2)$$

In Equation (2) ft symbolizes the unobservable common element and it is always accepted as stationary. εit is an element special to the series and it is distributed as identical and independent. The cross section in this model is due to the presence of unobservable common element. The Equation (1) and (2) are manipulated and written as follows:

$$\Delta yit = \alpha i + \beta i\, yi,t-1 + \gamma i\, ft + \varepsilon it \quad (3)$$

Here, $\alpha i = (1 - \varnothing i)\mu i$, $\beta i = -(1 - \varnothing i)$ and $\Delta yit = yit - yi,t-1$. Therefore, if it is$\varnothing i = 1$, the hypothesis of

CADF test is as follows:

H_0: $\beta i = 0$(for alli's)$series$ is not stationary.

A:$\beta i < 0$ $(i = 1,2,\ldots\ldots,N1,\beta i = 0 = N1 + 1,N1 + 2,\ldots\ldots,N)$ $series$ is stationary(Pesaran (2007).

In order to determine whether there is unit root or not in the panel overall in CADF test developed by Peseran (2207) CIPS (Cross-sectionally Im Pesaran Shin) statistics is calculated. As a result of taking the arithmetical average of CADF values determined for each country, CIPS statistics is calculated as follows:

$$CIPS = \frac{\sum_{i=1}^{N} CADF_i}{N} \tag{4}$$

Paseran and Yamagata (2008) Homogeneity Test

Whether the slope coefficients in cointegration equations are homegeneous or heterogeneous is tested before the cointegration test. Peseran and Yamagata (2008) homogeneity test is used for this (Pesaran and Yamagata, 2008: 56).

The first studies about the homogeneity test in panel data analyses were carried out by Swamy (1970). This Swamy's test was developed by Peseran and Yamagata (2008) and called as delta (Δ) test. According to this test, $Yit = \alpha + \beta it Xit + it$expresses a slope coefficient like βi in a cointegration equation and the hypotheses of Δ test are established as follows:

If H_0: $\beta i = \beta$, slope coefficients are homogeneous.
If H_1: $\beta \neq \beta j$, slope coefficients are not homogeneous.

Westerlund and Edgerton (2007) Cointegration Test

We can say that the purpose of cointegration analysis is to test whether there is a long term relationship between the integrated series in time series dimension (T) and cross section dimension or not (N) (Westerlund, 2007: 709).

Westerlund and Edgerton (2007) cointegration test is based on Langrage test multiplier by McCoskey and Kao (1998). This cointegration test is important because it allows autocorrelation and changing variance in cointegration equation, it considers the cross sectional dependency and also it gives results for small sampling. The fact that H0 hypothesis is accepted in this test indicates that there is a cointegration relations$_h$ip for all sections. The hypotheses of Westerlund and Edgerton (2007) cointegration test is as follows:

: = 0 there is a cointegration for all i's.
: > 0 There is no cointegration for some i's.

Full Modified Ordinary Least Square Method (FMOLS)

Some analysis methods were developed in order to test the stability of estimators for determining the final coefficient of this relationship as a result of the unit root and cointegration tests. Full Modified Ordinary Least Squares method developed by Pedroni (2000) was used in the study.

FMOLS analysis method can correct the deviations in standart estimators (the problems such as changing variance and autocorrelation). Pedroni's FMOLS method which largely allows heterogeneity among individual sections considers the presence of possible correlation between the error term, the standart

term and the differences of independent variables. Pedroni (2000) tested the power of FMOLS analysis technique in also small samples and calculated through Monte Carlo simulations that the performance of t statistics value in small samples was good.

Emirmahmutoğlu and Köse (2011) Causality Test

The causality among series was analyzed by Emirmahmutoğlu and Köse (2011) panel causality test in the study. The related causality test allows the heterogeneity as it is in Westerlund (2007) cointegration test and considers the cross sectional dependency. In addition, this test has two supreme properties because it is essentially based on Toda and Yamamoto (1995) causality test. The first one is that it models the series together with I(1) and I(0), i.e. the related test do not have the condition that the series should be stationary unlike standard causality tests. The second one is that it enables to be utilized when there is either cointegration relationship or not among the variables. As a result of these supreme properties, it asymtotically prevents to obtain biased results based on wrong model specification. In addition, this test enables the delay length to differentiate for each country and the long term information losses reduces because the series are modelled with level values (Emirmahmutoğlu and Köse, 2011).

VAR model (Equation 5 and 6) developed by Emirmahmutoğlu and Köse (2011) is outlined as follows (Emirmahmutoğlu and Köse, 2011: 872):

$$x_{i,t} = \mu_i^x + \sum_{j=1}^{k_i + d\,max_i} A_{11,ij} x_{i,t-j} + \sum_{j=1}^{k_i + d\,max_i} A_{12,ij} y_{i,t-j} + u_{i,t}^x \tag{5}$$

$$y_{i,t} = \mu_i^y + \sum_{j=1}^{k_i + d\,max_i} A_{21,ij} x_{i,t-j} + \sum_{j=1}^{k_i + d\,max_i} A_{22,ij} y_{i,t-j} + u_{i,t}^y \tag{6}$$

$dmax_i$ expresses the highest cointegration level in the system for each i.

Data

Long term relationship and causality between defense expenditures, peace level and economic growth in 11 EU (Bulgaria, Czechia, Estonia, Croatia, Letonia, Lithuaniz, Hungary, Poland, Romania, Slovakia and Slovenia) countries in 2007-2017 period were analyzed in this study. The purpose of the study and the literature were based on for the selection of the data. The variables used in the study were presented in Table1. and the related data were obtained from World Bank Data, Stockholm International Peace Research Institute and Global Peace Index. Economic growth was used as the explaining variable, defense expenditures and peace level were used as the explanatory variables.

Table 1. Variables in the analysis and their definitions

Variables	Symbol	Source
Economic growth(%)	GDP	World Bank (2018)
Defense expenditures (%)	DEXP	SIPRI (2018)
Peace level	PEACE	Global Peace Index (2018)

Empirical Analysis

By using panel data analysis the effect of defense expenditures and peace level, a global public goods, on economic growth in 11 EU countries between 2007 and 2017 was analyzed in the study. The analysis results were presented in tables and interpreted. The model is presented with the following equation:

Model: $GDP_{it} = \alpha_{it} + \beta_1 DEXP_{it} + \beta_2 PEACE_{it} + u_{it}$ (7)

Cross Sectional Dependency Test Results

Cross sectional dependency test is a determining test about the fact that which test would be used in empirical analysis. The presence of cross sectional dependency is tested through Peseran (2004) CDLM test when the time dimension is smaller than the cross section dimension (T<N), through Breusch-Pagan (1980) CDLM1 test when the time dimension is bigger than the cross section dimension (T>N) and through Peseran (2004) CDLM2 test when the time dimension is equal to the cross section dimension (T=N). Since the cross section dimension (N=11) of the data set is equal to the time dimension (T=11) in this study, the cross sectional dependency among the variables was tested by Peseran (2004) CDLM2 test and the results were presented in Table 2.

Table 2. Cross sectional dependency test results

Cross sectional dependency in variables	DEXP		PEACE		GDP		MODEL	
	Stat.	Prob.	Stat	Prob.	Stat.	Prob.	Stat.	Prob.
CD_{LM1} (BP,1980)	139.367	0.000	150.240	0.000	151.984	0.000	90.282	0.002
CD_{LM2} (Pesaran, 2004)	8.044	0.000	9.081	0.000	9.247	0.000	3.364	0.000
CD_{LM} (Pesaran, 2004)	-0.083	0.467	1.040	0.149	-1.216	0.112	3.534	0.000
Bias-Adjusted CD Test	1.049	0.147	4.879	0.000	-0.593	0.723	1.945	0.026

When the probability value of the cross sectional dependency test results is smaller than 0.05, H0 hypothesis is rejected at 5% of significance level and it is c$_o$ncluded that there is cross sectional dependency both in the model and between the series (Paseran, 2004). According to the test results in Table 2, the null hypothesis is rejected at 5% of significance level in the panel overall. Therefore, a second generation unit root test which considers the cross sectional dependency was used in the study.

Panel CADF Unit Root Test Results

Since the cross sectional dependency between the series was identified in the study, CADF unit root test which considers the cross sectional dependency was used. CADF unit root test results were presented in Table 3. When the statistical values (CIPS) and critical values in Table 3. are compared, it is seen that all of the three variables are stationary I(I) when their first differences are taken. In other words, the hypothesis “there is a unit root” is rejected in the panel overall.

Table 3. CADF unit root test results

Level	DEXP	PEACE	GDP
Constant	-1.781	-1.570	-1.862
Constant+ Trend	-2.169	-2.868	-1.941
First difference	**DEXP**	**PEACE**	**GDP**
Constant	**-2.845****	**-3.099*****	**-2.742****
Constant+ Trend	**-9.200*****	**-3.240***	**-5.013*****

*,**,*** indicates that the null hypothesis is rejected at 10%, 5% and 1% levels respectively.

Pesaran and Yamagata (2008) Homogeneity Test Results

The results of Peseran and Yamagata (2008) homogeneity test which is conducted in order to test whether the slope coefficients in cointegration equations are homogeneous or heterogeneous are presented in Table 4.

Table 4. Pesaran and Yamagata (2008)homogeneity test results

	Test Statistics	Prob.value
	-1.309	0.905
	-1.512	0.935

The null hypothesis is accepted because the probability values of the tests calculated in Table 4 are bigger than 0.10. It has been decided that the slope coefficients are homogeneous in cointegration equation. As a result, the interpretations of cointegration test for the panel overall are valid and reliable (Pesaran and Yamagata, 2008).

Westerlund and Edgerton (2007) Cointegration Test Results

Whether there is a long term relaitonship between the series is determined using panel cointegration tests. First of all, all of the variables used in the model should be stationary at the first level so that panel cointegration tests could be used. Since all of the variables used in the model became stationary at the first level, cointegration tests can be used in the study. Westerlund and Edgerton (2007) cointegration test was used in the study. Bootstrap probability value was considered since there is a cross sectional dependency in the model.

Westerlund and Edgerton (2007) cointegration test results are presented in Table 5. According to this test results, the null hypothesis “there is a cointegration” is accepted at 5% of significance level. Cointegration was determined among defense expenditures (DEXP), economic growth (GDP) and peace level (PEACE).

Table 5. Westerlund and Edgerton (2007) cointegration test result

Model	LM-Statistics	Asymptotical Prob. Value	Bootsrap Prob. Value
Standard Model	-8.149	1.000	0.988

Note: Bootstrap probability values were obtained from 10000 repetative distribution. Asymptotical probability values were obtained from standard normal distribution. The delay and processor are taken as one. Fixed model is preferred.

Full Modified Ordinary Least Square (FMOLS) Results

The coefficients and direction of the long term relationships among the variables were estimated through FMOLS. The test results were indicated in Table 6. When we look at the test results, a negative relationship was determined between independent variable, peace level and the dependent variable, economic growth. The determined relationship was found as significant at 5% level. In other words, the increase in peace level may increase the economic growth or the decrease in peace level may decrease the economic growth. Similarly, a positive relationship was determined between the independent variable, defense expenditures and the dependent variable, economic growth. The realted relationship was found significant at 5% level. In other words, the increase in defense expenditures may increase the economic growth or the decrease in defense expenditures may decrease the economic growth.

Table 6. FMOLS coefficient estimation results

Model:			
Variable			
	Coefficient	**t-Statistic**	**Prob.**
DEXP	0.907562	0.929682	****0.0363**
PEACE	-0.163451	2.179753	****0.0414**

Note: * indicates the significance at 10% level, ** indicates the significance at 5% level and *** indicates the significance at 1% level.

The decrease in index value of peace level because value for peace level is a value estimated between 1-5 and the peace level increases as it approaches to 1 means the increase in peace and confidence and this may increase the economic growth. The reason for this is may be positive effect of peace atmosphere on the decision-making mechanisms of economic units.

Emirmahmutoğlu and Köse (2011) Causality Test Results

The causality among the variables was analyzed in the study using Emirmahmutoğlu and Köse (2011) causality test and the results were presented in Table 7 and Table 8.

When the test results in Table 7 were analyzed, one-directional causality from defense expenditures to economic growth was determined according to the panel average. In other words, it can be said that a potential change in defense expenditures may lead to a change in economic growth. As the reason for this, it can be stated that defense expenditures have an important share in public expenditures and the public expenditures are also important in terms of economic growth and with the increase in defense

expenditures the consolidation of defense industry and it can increase economic growth by means of production and foreign trade.

When the test results in Table 8 were analyzed, one-directional causality from peace level to economic growth was determined according to the panel average. In other words, it can be said that a potential change in peace level may lead to a change in economic growth. As the reason for this it can be said that as the peace level increases, the confidence level also increases and it may have an effect on economic stability and increase the economic growth, too.

Table 7. Emirmahmutoğlu and Köse (2011) causality test results (DEXP => GDP, GDP =>DEXP)

Countries	DEXP => GDP		GDP =>DEXP	
	Statistics	Prob. Value	Statistics	Prob. Value
Bulgaria	**6.896****	0.032	1.367	0.505
Czechia	**13.620*****	0.001	3.148	0.207
Estonia	0.726	0.696	**12.378*****	0.002
Croatia	1.607	0.448	0.043	0.979
Letonia	**230.163*****	0.000	1.803	0.406
Lithuania	0.063	0.802	0.005	0.944
Hungary	**5.794***	0.055	**58.456*****	0.000
Polond	1.923	0.382	0.165	0.921
Romania	**12.509*****	0.002	1.128	0.569
Slovakia	**108.015*****	0.000	4.506	0.105
Slovenia	0.705	0.703	**115.305*****	0.000
Average	**43.503*****	0.004	24.348	0.329

Note: *** indicates the significance at 1% level, ** indicates the significance at 5%,* indicates the significance at 10% level.

Table 8. Emirmahmutoğlu and Köse (2011) causality test results (PEACE => GDP, GDP=>PEACE)

Country	PEACE => GDP		GDP=>PEACE	
	Statistics	Prob. Value	Statistics	Prob. Value
Bulgaria	0.835	0.361	0.006	0.940
Czechia	1.353	0.245	2.518	0.113
Estonia	0.249	0.618	0.014	0.906
Croatia	0.919	0.338	0.220	0.639
Letonia	0.612	0.434	0.000	0.999
Lithuania	**3.359***	0.067	0.029	0.865
Hungary	0.090	0.765	0.001	0.972
Polond	0.703	0.402	0.002	0.964
Romania	**19.148*****	0.000	**10.307*****	0.001
Slovakia	0.810	0.368	**3.613***	0.057
Slovenia	0.242	0.622	0.387	0.534
Average	**43.019*****	0.005	26.232	0.242

Note:*** indicates the significance at 1% level, ** indicates the significance at 5%, * indicates the significance at 10% level.

CONCLUSION

Although the share of public sector in economy differs from country to country in the world, this share generally tends to increase in the countries adopting the understanding of modern state. There are many reasons for this share to increase; however, the main reason is that some needs are rather met by the public sector. Because private sector may be insufficient to meet such needs. The reason why the private sector is insufficient is that the market mechanism for goods and services to meet such needs can not work. The defense service in which market mechanism does not work and therefore the private sector is not successful can be counted among the most important goods and services provided by the public economy. Defense expenditures are presented by the public sector as they have the characteristics of full public goods.

One of the discussed issues about the defense expenditures is the relation of defense expenditures with economic growth. The studies on defense expenditures and economic growth are generally gathered around two approaches. One of them is supply side approach suggesting that the effect of defense expenditures on economic growth is positive and the other one is demand side approach suggesting that the effect of defense expenditures on economic growth is negative. While the supply side approach explains the positive effect as the effect of externalities and arousal, demand side approach explains the negative effect due to the fact that countries transfer their assets to the defense instead of investment. In addition, it was asserted that there was no significant relationship in some studies, i.e. there was no correlation between the two variables.

Global public goods are the ones that the whole world is utilized and that is useful for the next generations besides today's people. Peace has global goods characteristics. Failing to ensure global peace causes the problems such as wars, genecides, epidemics and refugee problem. This is why global peace is very important. Countries are obliged to act together for the global peace. If a state of some of them come together and spend all of their resources for the global peace, this will not be a sufficient supply. Therefore, supranational institutions and organizations are established and peace, a global public goods, is tried to be provided.

Panel data analysis was utilized in this study in order to analyze the effect of defense expenditures and peace level on economic growth in 11 EU transition economies (Bulgaria, Czechia, Estonia, Croatia, Hungary, Poland, Slovakia, Slovenia, Romania, Letonia and Lithuania) in 2007-2017 period.

As a result of the study, it was determined that there was a cointegration relationship between defense expenditures and peace level and economic growth. In other words, it was seen that these variables acted together in long term. According to FMOLS test results, a significant and positive relationship was determined between defense expenditures and economic growth. Moreover, the presence of a significant and negative relationship between peace level and economic growth was determined. The reason for the negative relationship between peace level and economic growth is the value for the peace value is between 1 and 5 and the peace level increases as it approaches to 1. As this value grows away from 1, peace level decreases and it may affect the economic growth negatively. According to Emirmahmutoğlu and Köse (2011) causality test results, a one-directional causality from defense expenditures to economice growth was determined. As the study results were evaluated in general, it was determined that defense expenditures and peace level affected economic growth positively.

As a certain group of countries is analyzed in the study, the development levels of these countries are near to each other and the results comply with each other. In order to maintain the positive effect of defense expenditures and peace level in general a series of recommendation is presented as follows.

As a result of the study it was determined that defense expenditures affected economic growth positively. For that reason, dependence on foreign countries can be reduced by producing some of the imported defense equipment. Therefore, a more confident environment can be provided if certain risks are experienced.

The effect of global peace on economic growth was also analyzed in the study. It was determined that peace affected economic groeth negatively (because peace level decreases as the peace index increases). In other words, it was identified that increasing peace level increased the economic growth. From this point of view, it can be said that economic growth can be increased through the improvement in peace level. The increase in peace level leads to the confidence and peaceful atmosphere. However, a risk occuring in a part of the world along with the globalization has the possibility to affect other countries. For that reason, it can be said that conducting studies on global peace along with the national peace would lead to positive effects on economic growth both on national and global basis. In order to increase the peace level and provide the peace atmosphere, interior and exterior conflicts should be prevented, the affairs with neihboorhood countries should be improved, violent crimes should be prevented, political instability and terrorism should be reduced, corruption rate should be reduced and govermental transparency should be increased.

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Chapter 30
The Business Transformation Framework and Enterprise Architecture Framework: Organisational Asset Management in the Lebanese Context

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ABSTRACT

In this chapter, the author based his research on his authentic mixed multidisciplinary applied mathematical model that is supported by a tree-base heuristics module, named the applied holistic mathematical model for organizational asset management (AHMM4OAM), where the proposed AHMM4OAM is similar to the human empirical decision making process, which can be applied to any type of asset management discipline, in order to support the evolution of organisational, national, or enterprise asset management. The AHMM4OAM can be used for the detection of financial irregularities, assets optimisations and eventual dangers for the organisation's or national assets. In the case of gigantic financial misdeeds that endanger national assets, which are related to fraud and money laundering that damage many organisations and even countries, and in this concrete case it is related to the Swiss, Union des Banques Suisse (UBS), in which 32 trillion US dollars are hidden and is the problem of global financial disequilibria. The AHMM4OAM is supported by a real-life case of a organisational (or business) transformation architecture in the domain of organizational (or enterprise) asset management (OAM) that is supported by the alignment of a standardized organisational or enterprise architecture blueprint.

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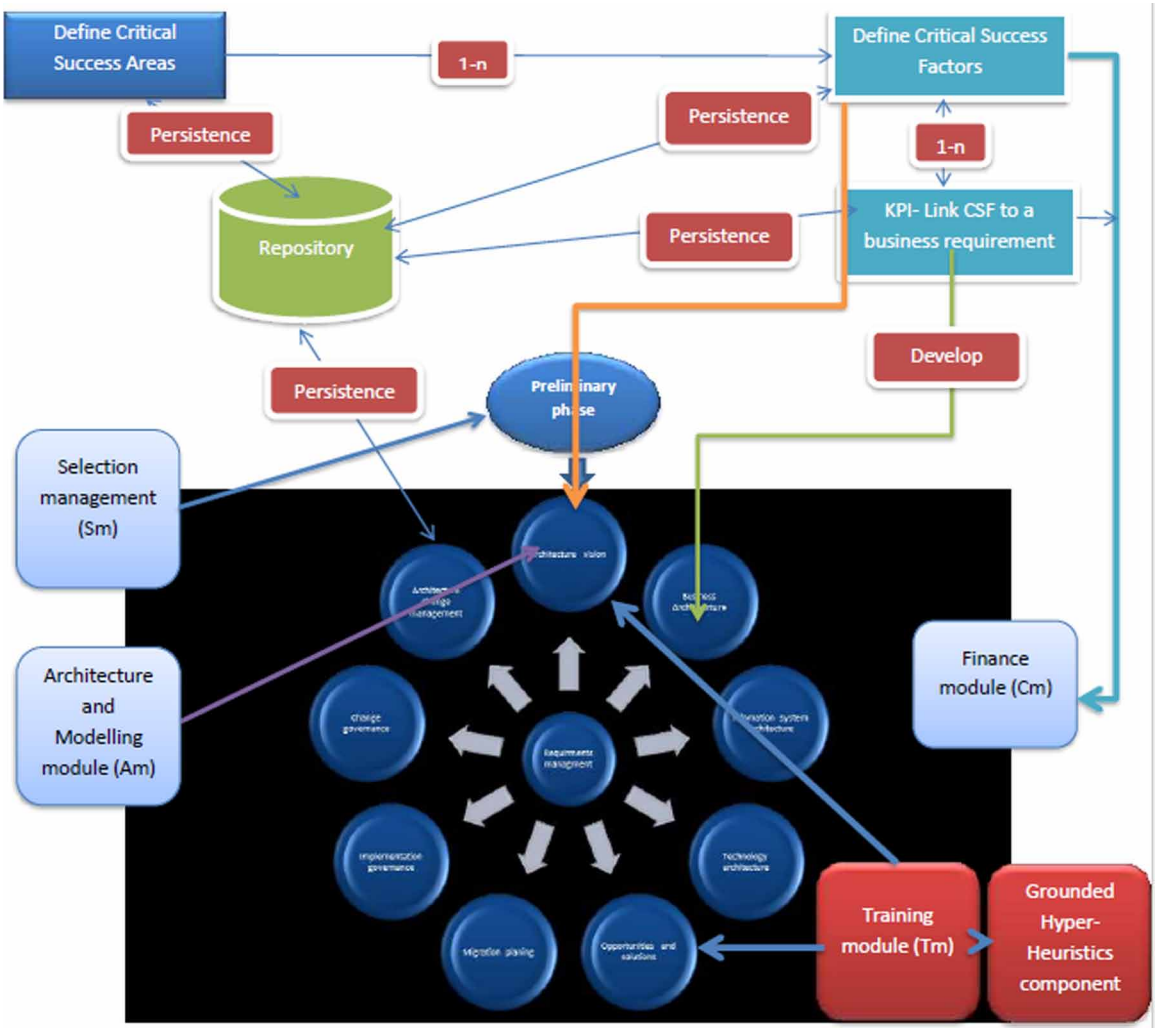
INTRODUCTION

This chapter proposes an Assets Protection Pattern (APP) and offers also a set of solutions in the form of design, technical and managerial recommendations, to be used by the target organisation's asset analysts and organisational architects to implement OAM solutions in the context of Organizational (or Business) Transformation Projects (OTP) in the Lebanese context. In this case, heuristics can be applied in real world complex problems that are very similar to the problems of assets' management encountered in organisational transformation projects. The OAM' based Assets Protection Pattern (APP) is not influenced by any specific business domain or organisation and has a holistic approach that uses a neural networks processor. The APP is based on a reasoning concept that is basically a qualitative research method that manages, weights and qualifies Critical Success Factor (CSF) sets, actions and delivers final solutions or recommendations (Capecchi, Buscema, Contucci, D'Amore, 2010). The APP's underlined system supports OTPs, government audits, assets valuations or an Enterprise Architecture Project (EAP) (simply the *Project*), by integrating scenarios that are sets of interactive services to manage or valuate assets (Trad & Kalpić, 2018a; Trad & Kalpić, 2018b).

BACKGROUND

This chapter's background combines asset management, patterns design, enterprise architecture, mathematical models, heuristics, technology management, business/societal transformation, geopolitical analysis and business engineering fields. Using APPs for developing OAM systems is the most strategic goal for business companies, organizations and even countries. Fast transformations and efficient organisational environments have to be supported by a holistic and intelligent OAM systems (Cearley, Walker, Burke, 2016). The OAM is organisation driven and is agnostic to a specific region/organization, technology, financial or architecture pattern, as shown in Figure 1, it is founded on a research framework that in turn is based on the industry standard, like the Architecture Development Method (ADM) (The Open Group, 2011a). Enterprise architecture is a methodology used to develop *Projects*, requirements, organizational architecture and its Information and Communication System's (ICS) components. The Organizational (or Business) Transformation Manager (OTM) or an Enterprise Architect (simply the *Manager*) can integrate an APP in the development of an enterprise asset architecture of a *Project* to support an OAM system (Trad & Kalpić, 2017b; Trad & Kalpić, 2017c; Thomas & Gartner, 2015; Tidd, 2006). This APP's aim is to deliver recommendations for managing aligned OAM's architecture integration. The author's Research & Development Project (RDP) is based on literature review, a qualitative methodology and on a Proof of Concept (PoC) that is used to prove the related hypotheses. In a holistic APP based OAM, the *Manager*'s role is important and his or her (for simplicity, in further text – his) decisions are aided by using success factors within an implemented AHMM4OAM. A large set of CSFs can influence the AHMM4OAM, including: 1) the role of the asset management and control by mechanisms; 2) global organizational CSFs; 3) organizational resources planning sources; 4) level of the OAM's skills; 5) audit and technological conditions; 6) financial predispositions; and 7) national security, financial and legal control mechanisms (Trad & Kalpić, 2019g). A system's approach is the optimal to model such asset management controls (Daellenbach & McNickle, 2005; Trad & Kalpić, 2016a). As shown in Figure 1, the decision model interacts with the external world via an implemented framework to manage the OAM's factors and that is this chapter's focus.

Figure 1. The research framework's concept (Trad & Kalpić, 2016a)



MAIN FOCUS OF THE CHAPTER

The APP proposes, various Financial Technology (FinTech) components that are part of the Financial management module (Fm), Architecture management module (Am) and the Geopolitical module (Gm); Fm and Gm are parts of this RDP's framework, the Transformation, Research and Architecture Development framework (*TRADf,* will be used), that is the major support for of *Project*'s activities; in fact the proposed *TRADf* is a leader in this market (Trad, 2017a; 2017b; Trad & Kalpić, 2020a). The closest comparable framework is TOGAF which does really tackle mapping that is the most delicate topic (Trad, 2019a). This chapter is strongly bonded to two other articles and together they create a research whole on financial engineering risk and technology management related works. These articles are: 1) the intelligent Strategic Decision Making System (iSDMS) (Trad, 2019a); 2) the intelligent Strategic Requirements Development (iSRDev) (Trad, 2019c); and 3) the Financial Risk Management with a Strategic Vision (FRMSV) (Trad, 2020d), which describes the usage/instantiation of the APP. Which makes these

two chapters strongly bounded and should read together (Trad, 2020c). The *TRADf* and its APP which supports OAM components, needs a specific organizational engineering and technology integration concepts, based on agile engineering methodologies and atomic Building Blocks microartefacts, which in turn are based on an anti-fragile concept. This RDP's main focus is on: 1) the APP's to support an risk management for OAM modules; 2) the use with existing standard market architecture and audit frameworks; 3) to support various types of *Projects*; 4) for the selection of the APP based OAM managers' profile; 5) the use of a AHMM4OAM; 6) the neural networks concept in the form of a Natural Language Programming (NLP); 7) holisms, generics and global concept; 8) the application of risk management to support OAM systems; 9) the APP as the kernel of the future strategy for organisational systems; 10) Artificial Intelligence (AI) as a generic interface; 11) the Knowledge Management System for OAM (KMS4OAM) as a holistic strategic knowledge environment to support a financial strategy; and 12) continuous development, deployment, transformation and innovation, using agile iterative development and operations approaches. Searching with the scholar engine, within Google's online search portal, in which the author combined the previously mentioned keywords and key topics; the results show very clearly the uniqueness and the absolute lead of the author's works/framework, methodology, research and recommendations in the mentioned scientific fields and that can be considered as an important jumpstart for the future industrial use (Trad, 2019a, 2019d). From this point of view and facts, the author considers his long-life works on the mentioned topics as innovative, credible and ultimately useful; to support the chapter's topic. The AHMM4OAM based APP for *Projects,* where the NLP, can be used for scripting and prototyping OAM environments using a set of aBBs in the form of microartefacts.

THE RESEARCH DEVELOPMENT PROCESS

The Research and Development Processes

This research's main topic is related to *Project*s and the ultimate research question is: "Which business transformation manager characteristics and which type of support should be assured in the implementation phase of a business transformation project?" Decision making concepts based on critical success areas are their main research component. Where this chapter's research question is: "Can an assets alignment pattern, support a business transformation project or an intelligent decision making system and minimize the risks of failure?"

The Research's Literature Review

The outcome is that very little relevant scholar or even general literature and research resources exist on the selected subject; of course with the exception of some frameworks similar to Open Group Architecture Framework (TOGAF) which covers the ADM part; where *TRADf* has many advantages but lacks the lobbying factor. The author considers his works as a pioneering undertaking; the most relevant APP information found in literature was that there is an immense gap, between *Projects* objectives and the existing reality. In this chapter, the author uses many of his own referenced and accepted works (managed by an internal review/weighting system), because, he considers that this (or these) topics are somehow ignored and not sufficiently researched; and that their work is an original pioneering work that is based mainly on empirical requirements engineering disciplines.

Empirical Engineering Research Model

This chapter and RDP are based on an empirical engineering research approach, which optimal for OAM engineering or cross-functional *Projects* (Easterbrook, Singer, Storey, & Damian, 2008). It uses the author's authentic mixed method (where mixed research is a simplistic synonym) that can be considered as a natural complement to conventional siloed qualitative and quantitative research methodologies, to deliver empirical pragmatism concepts as a possible holistic approach for interactive mixed methods research. Empirical validity checks if the RDP's work is acceptable as a contribution to existing scientific knowledge, this chapter's author (and researcher) wants to convince the valuable readers that this chapter's recommendations and that the related PoC are valid. A controlled experiment or a PoC is a concept that contains design artefacts and a software prototype of a testable RQ (and related hypothesis) where one or more CSFs (or independent variables) are processed to evaluate their influence on the model's dependent variables. Controlled experiments or PoCs permits to evaluate, with high precision the CSFs (and KPIs) and if checks if they are related, like if the cause–effect relationship exists between these CSFs. The APP is business-driven and are founded on the *TRADf* that is presented and validated by using the ACS (The Open Group, 2011a).

Critical Success Areas, Factors and Related Decision-Making Processes

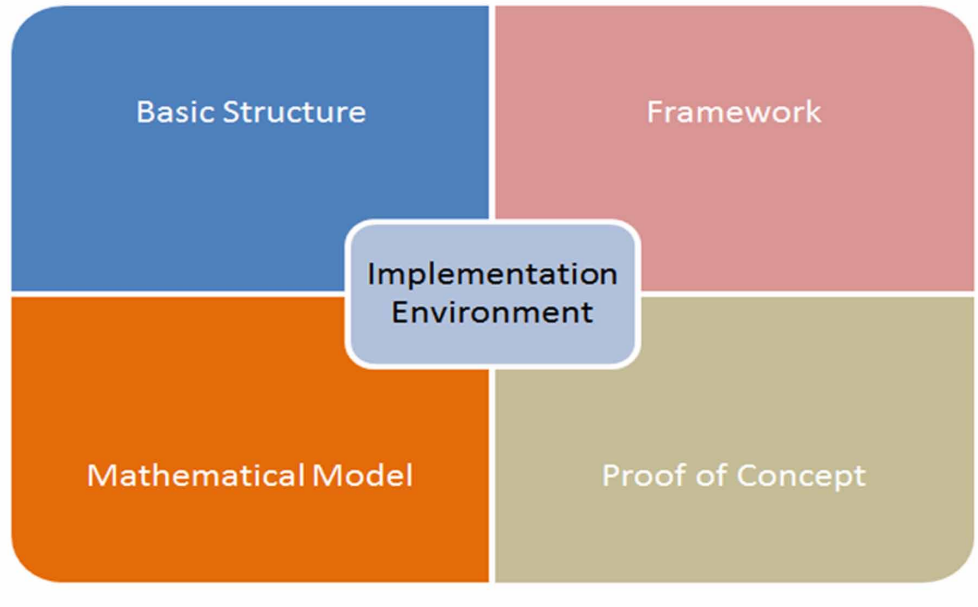
Critical Success Area (CSA) is a category of Critical Success Factors (CSF) where in turn a CSF is a set of KPIs, where a KPI corresponds to a single requirement or feature. For a given problem, a framework analyst must identify the initial set of CSFs to be used for the decision-making system. Hence the CSFs are the most important mapping/relation between the geopolitical construct, financial status, organisational predisposition and Decision-Making System for OAM (DMS4OAM) (Peterson, 2011). Therefore, CSFs reflect performance areas that must meet OAM strategic goals and defined AHMM4OAM constraints; if the target organisation requires a sane financial and existential future. Measurements are used to evaluate performance in each CSA, where CSFs can be internal and/or external; like for example: 1) national budget gap analysis is an internal CSF; 2) debts management; and 3) percent of market share is an external CSF. The *TRADf* method to select the CSA category and the corresponding CSFs is to audit the organisation's status and strategic planning processes. Once the initial set of CSFs has been identified, then the *Project* has to use the DMS4OAM module to verify the CSFs and to give them the right weightings. The proposed APP, is a part of the Framework, which delivers a set of recommendations and solutions for an aligned set of resources and assets (Trad & Kalpić, 2017b; Trad, & Kalpić, 2017c).

The Author's Applied Framework

The *Manager* or organisation's asset management design decisions can be made in a just-in-time manner by using outputs from various credible technology logging and information sources. The defined OAM strategy should asses and govern the organization's assets that are formalized with an aligned organisational architecture blueprint. The author's RDP, supports such an undertaking, as shown Figure 2. Unfortunately, an immense set of archaic factors can influence such a process, like: 1) the influence of asset management on *Projects*; 2) working with complex problems and ICS systems with a very strict financial and legal frameworks; and 3) the holistic architecture and design standards for such *Projects* are non-existent, or are too complex to implement. A global OAM systems approach is optimal for such

complex mechanisms (Daellenbach & McNickle, 2005). In this RDP's chapter the focus is on the APP module that manages the OAM's integration. The APP can be applied to many *Project*s and general fields and in this article the author proposes a set of APP managerial recommendations and a reusable real-world module (Trad 2018a; Trad 2018b).

Figure 2. The implementation environment that enables OAM



The APP component is managed by TOGAF's ADM phases, where each APP microartefact circulates through its phases. The APP aBBs contain their private set of CSFs. These CSFs can be applied to (Peterson, 2011): 1) select the important OAM factors; 2) detect the OAM's most important assets; 3) estimate the actual assets of the *Project* using the DMS4OAM's interface; and to eventually take a decision on *Project*'s continuation; 4) control and monitor the needed APP instances; 5) upgrade the *Project*'s OAM asset management skills; and 6) support the architecture and project management activities. The Framework or the *TRADf* is composed of the following modules:

- "Sm": for the selection management of the Framework.
- "Am": for the architecture and modelling strategy that can be applied by the Framework.
- "Cm" for the control and monitoring strategy that can be applied by the Framework.
- "Dm" for the decision-making strategy that can be applied by the Framework.
- "Tm" for the training management of the Framework.
- "Pm" for the project management strategy that can be applied by the Framework.
- "Fm" for the financial management's support to the Framework.
- "Gm" for the Geopolitical mind-mining to the Framework.
- "F" for Framework

This chapter is a part of the research cluster that has produced many articles, literature reviews, usable items and RDP artefacts. In this chapter, the minimum of sections from previous works are reused for a better understanding of this complex subject. *TRADf*, can be considered as a pioneering one in the field of global architecture concepts. For this phase of RDP, the author tries to deliver his findings and recommendations to clarify the risks, using the AHMM4OAM that is based on CSFs. For that purpose, this phase's RDP sub-question is: "Which basic structure is needed for an applied asset model in order to evaluate the country's assets, in the Lebanese context?".

The APP is organisation driven and is founded on *TRADf* that in turn is based on the ADM and on the DMS4OAM (The Open Group, 2011a).

The Holistic Decision-Making System

In the context of the *TRADf,* the DMS4OAM is conceptually based on a mixed method, combining Action Research (AR), tree heuristics, neural networks and directed quantitative analysis. The author believes that qualitative, quantitative and other methods can be united in a single reasoning method that corresponds to reality. AR is applied majorly in education research and this fact supports the *Project*'s capability to build organisational or business intelligence microartefacts in a continuous learning and experiences improvement processes. This process inspects and learns from configurable intelligent microartefacts that are the basis of the DMS4OAM. The DMS4OAM is generic and can be applied to any business domain and is easily adaptable to various types of OAM problems (Trad & Kalpić, 2017c; Peterson, 2011) and if there is a need, it can launch a precise quantitative analysis to refine the recommended solutions. A DMS4OAM must be managed by existing standard audit or governance frameworks, where the *Manager*'s configuration of various types of risks is required; these risks are estimated by the *Manager*, by applying DMS4OAM' actions to deliver possible solutions. The DMS4OAM actions' map to the governance processes, found in TOGAF's phase G, which is responsible for the implementation of governance needed to adjust organizational or business objectives. DMS4OAM' microartefacts are implemented in all the *Project*'s components and the implementation of governance mechanisms should be able to identify critical risks. They are to be managed as CSFs, what might need many iterations to contain the risks; such a chain of activities can be modeled and managed by the AHMM4OAM (The Open Group, 2011a).

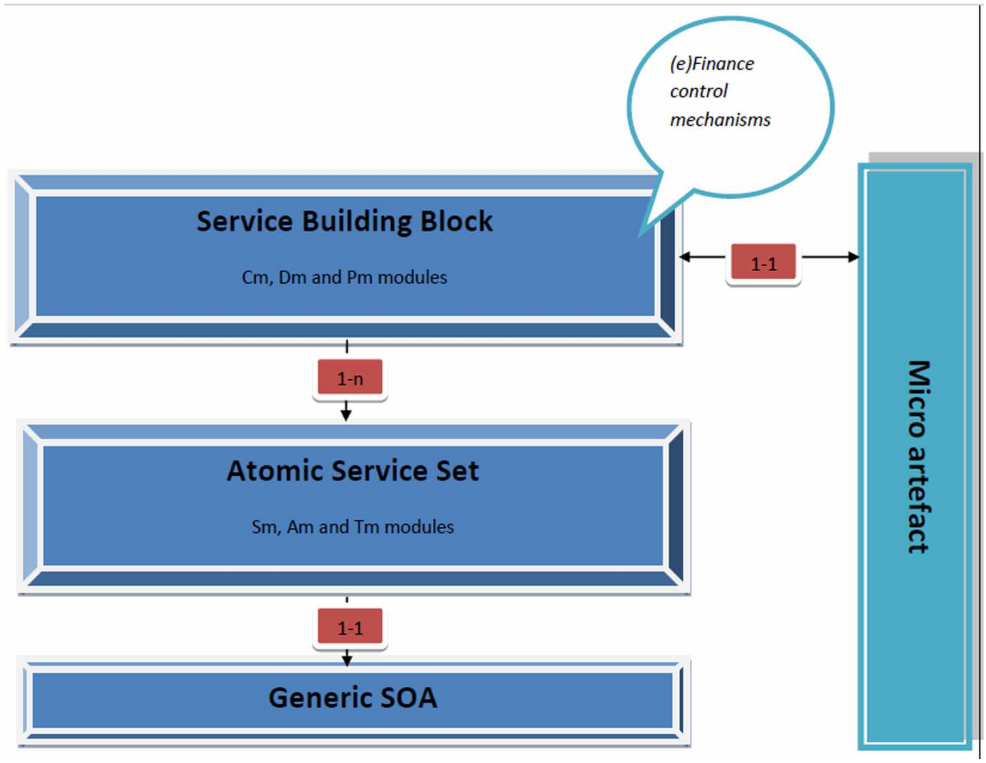
The Applied Organizational Mathematical Model

The proposed AHMM4OAM is domain agnostic and is not related to any specific methodology and contains a configurable reasoning module that uses CSFs sets and a selected set of actions (Peterson, 2011). As shown in Figure 3, the applied AHMM4OAM supports a microartefact based architecture, which uses a business-driven approach and integrates the ADM (Trad & Kalpić, 2017b).

The APP takes into account the following CSAs, the:

- OAM's concept.
- ICS integration.
- Legal and governance aspects.
- Financial background.

Figure 3. The TRADf's microartefact concept (Trad, A. & Kalpić, 2017b)



Adapting just the underlined existing organisational silos is not enough and the main problem in such *Project*s is the lack of a holistic OAM concept (Trad, 2015a).

Scientific vs Organisational or Business Aspects

The uniqueness, difference and the research lead of the author's *TRADf* and its modules like the AHM-M4OAM, which promote a holistic cohesive organisational transformation, architecture, design and implementation model that supports complex *Projects* integrations using a targeted and genuine PoC; in this case the proposed APP and the OAM experiment (Farhoomand, 2004). Using the scholar engine, within Google's online search portal, in which the author combines the previously mentioned keywords and key topics; the results have shown very clearly the uniqueness and the absolute lead of the author's framework, methodology, research and works (Trad, 2019a). From this point of view and facts, the author considers his works on the mentioned topics as innovative, credible and useful; so the main topics will be introduced.

The RDP's CSFs and the Link to the Next Section

Based on the CSF review and the related evaluation processes the most important RDP's CSFs are used and processed by the internal heuristic engine (Trad & Kalpić, 2020a). It is strongly recommended to

Table 1. The RDP's CSFs that have an average of 9.25

Critical Success Factors	KPIs	Weightings
CSF_RDP_Modelling	Complex	From 1 to 10. **09 Selected**
CSF_RDP_Factors	PossibleClassification	From 1 to 10. **10 Selected**
CSF_RDP_References	Exists	From 1 to 10. **09 Selected**
CSF_RDP_ADM	IntegrationPossible	From 1 to 10. **09 Selected**
CSF_RDP_Technologies	AdvancedStage	From 1 to 10. **09 Selected**
CSF_RDP_Governance	Advanced	From 1 to 10. **09 Selected**
CSF_RDP_Transformation_TRADf	IntegrationPossible	From 1 to 10. **10 Selected**
CSF_RDP_Leading_Governance	Possible	From 1 to 10. **09 Selected**

valuation

refer to the author's related works to understand the used model. Based on the CSF review process, the important RDP's CSFs are used and evaluated as explained below.

In this chapter, the deductions are done by using the analysis of all the chapter's CSAs, where a *TRADf's* NLP script is used, in which all its CSFs are stored and appear in Table's 1 column. The *TRADf's* scripts in the background, are automated to calculate the weightings and ratings; known as the KPIs and a value from the enumerated sets; and they are tuned and stored in column 2. This RDP's concept proposes a standardized and automated manner to evaluate literature reviews that is an evolution in regard to the very subjective method that is used in general, which may or may not make sense. If the automated literature review's evaluation is successful, only then the experiment can be completed. What is unique about the *TRADf* and its RDP, is that it can automate complex RDPs in phase 1, and estimate the values for each selected KPI, as described in the in the associated chapter; on how to use CSA, CSF, KPI processing in the complex research projects (Trad, 2019a).

As shown in Table 1, the results justify (an average of 9.25) the usage of the ACS and how it can be used with the final PoC or phase 2; where the described process is applied to all CSAs (and their tables) in this chapter. This section's results show clearly the uniqueness *TRADf* in integrating the authors RDP and using a mapping structure to integrate an ACS.

THE APPLIED CASE STUDY

This ACS uses two case studies: 1) the first is related to technical and structural aspects; developed by the Open Group as a reference study for its TOGAF environment, it offers the capability to implement *Project* components and is related to an insurance company named ArchiSurance (Jonkers, Band & Quartel, 2012a); the author recommends the readers to read the original ACS because it is used to check the APP's feasibility; and 2) the second is related to the concrete Lebanese context.

Information and Communication Infrastructure

The APP and the OAM, use the ACS and ICS; and the needed goals to be achieved:

- Offer an ICS and infrastructure, feasible solutions; in the sense of robustness and performance.
- Design APP solutions for the future OAM.
- Select a jump start objective from the ACS; and use as template architecture blueprint.
- Build resource microartefacts to support the architecture blueprint.
- Prepare *TRADf's* phase one and if successful, select a problem from the ACS to prove phase two.

Managing RDP's Cases

The proposed APP pattern instances for an OAM are used by the ACS, which is developed by the Open Group as a reference study for its own TOGAF and its ADM, it presents the possibilities to implement the OAM, and is related to an insurance company named ArchiSurance (Trad & Kalpić, 2018f); which is used in the APP instance. The APP uses CSF management structure and in this chapter is supported by adapted case studies: 1) an extended insurance case (Jonkers, Band & Quartel, 2012a), for pure technical issues; 2) for economic subsectors (Srour, & Chaaban, 2017); 3) oil and gas development (Barrier, & Ahmad, (2018); and 4) resilience in fragility in the Lebanese context (MENA-OECD, 2018).

Integrating Critical Success Factors

A CSF its KPI enumerations are measurable and mapped to a weighting that is roughly estimated in the first iteration and then tuned through ADM iterations, to support the APP; where a holistic set of CSFs are essential (Felfel, Ayadi, & Masmoudi, 2017); this process of evaluation is described in this s RDP (Trad & Kalpić, 2019d). The main issue here is how to define the APP goals to integrate the OAM and how to interrelate the different business, ICS and other *Project's* components; where the ADM is its skeleton.

The Architecture Development Method and Projects

This RDP which uses architecture and design for *Projects',* focuses on the integration and presents the influence of an APP concept to support the OAM (Trad & Kalpić, 2019e). Currently, distributed intelligence, complexity, knowledge, economy, complex organisational models and technology, need an APP concept supported by a hyper-heuristics tree that supports a wide class of problem types that are processes in the RDP's Phase 2 (Markides, 2015), where the APP supports *Project* OAM mechanisms. The *TRADf's* parts must synchronize with the ADM, where the OAM and its internal components are interfaced in all the ADM phases.

The Lebanese Assets Management Context

Petro Trad's Lebanese republic was a transitory dominion entity that resulted from and was shaped by the friendly and allied France (World Journals, 2002). Knowing that the Franco-Lebanese relationship is extremely old. Since then the Semito-Phoenicians or Lebanese were linked and protected by the Francs. Centuries passed and the Lebanese-specific cosmopolitan entity progressed to become a Monaco-like

structure with a unique, ethnically diverse financial system, with the Lebanese constitution developed to privilege a predominant ultraliberal banking and finance; l system initially designed by Michel Sursuqs (Tarazi-Fawaz, 2014; Toufic, 2004;Trombetta, 2009; 2018). Such an entity needs resilience in fragility, that is the second part of the ACS which inspects the notions of security in fragile environments like in the context of the Lebanon. Unfortunately Lebanon does not have exclusive control over the military and security issues. Pro-Syrian and Pro-Iranian mini-armies have established full control of various parts of the Lebanese republic, including suburbs of Beirut, which is controlled and protected by the Lebanese armed forces and national police. The wars in Syria and the MEA brought in various militias and terrorist groups, including Islamist terrorist groups affiliated to the Islamic State, which is very active in Lebanon. Foreign influenced militias use military violence and targeted assassinations to resolve disputes is still recurrent and Lebanon's crime rates is increasing. Since the 1975 war, many light and mid-range weapons circulate in Lebanon, where Pro-Syrian and Pro-Iranian militias are better armed than the national army; which is illegitimate. Political leaders have private armies, with impressive weapon stocks and trained personnel. Lawless situations occur daily as well as numerous conflicts with Pro-Syrian and Pro-Iranian driven elements. Political violence is extremely high, in the period between 2005 and 2013, there were several dozens of political assassinations or attempts thereof; mainly conducted by Pro-Syrian and Pro-Iranian killing squads (Malaeb, 2018; MENA-OECD, 2018).

National Assets Branches

- Powerful diaspora.
- Oil and gas resources.
- High level of education and rentable educative system.
- Tourism.
- Finance and Banking.
- Agriculture.
- Medical branch.

National Assets Pitfalls

- MEA's instability.
- Financial competition and predators.
- Anti-Semitism.

The ACS's CSFs and the Link to the Next Section

The important ACS's CSFs that are used and processed by the internal heuristic engine.

As shown in Table 2, the results justify (an average of 9.40) the usage of the ACS and how it can be used with the final PoC or phase 2; where the described process is applied to the next six CSAs and their tables. This section's results show clearly the uniqueness *TRADf* in integrating a standard ACS using a mapping structure; the closest comparable framework is TOGAF which does really tackle mapping that is the most delicate topic (Trad, 2019a).

Table 2. The ACS's CSFs that have an average of 9.40

Critical Success Factors	KPIs	Weightings
CSF_ACS_Modelling	Complex	From 1 to 10. **10 Selected**
CSF_ACS_Factors	PossibleClassification	From 1 to 10. **10 Selected**
CSF_ACS_References	Exists	From 1 to 10. **09 Selected**
CSF_ACS_Case_1	IntegrationPossible	From 1 to 10. **09 Selected**
CSF_ACS_Case_2	AdvancedStage	From 1 to 10. **09 Selected**
CSF_ACS_RDP_Mapping	Advanced	From 1 to 10. **09 Selected**
CSF_ACS_Integration_TRADf	IntegrationPossible	From 1 to 10. **10 Selected**
CSF_ACS_Integration_OAM	Possible	From 1 to 10. **09 Selected**

valuation

ORGANIZATIONAL ASSET MANAGEMENT BASED TRANSFORMATION PROCESSES

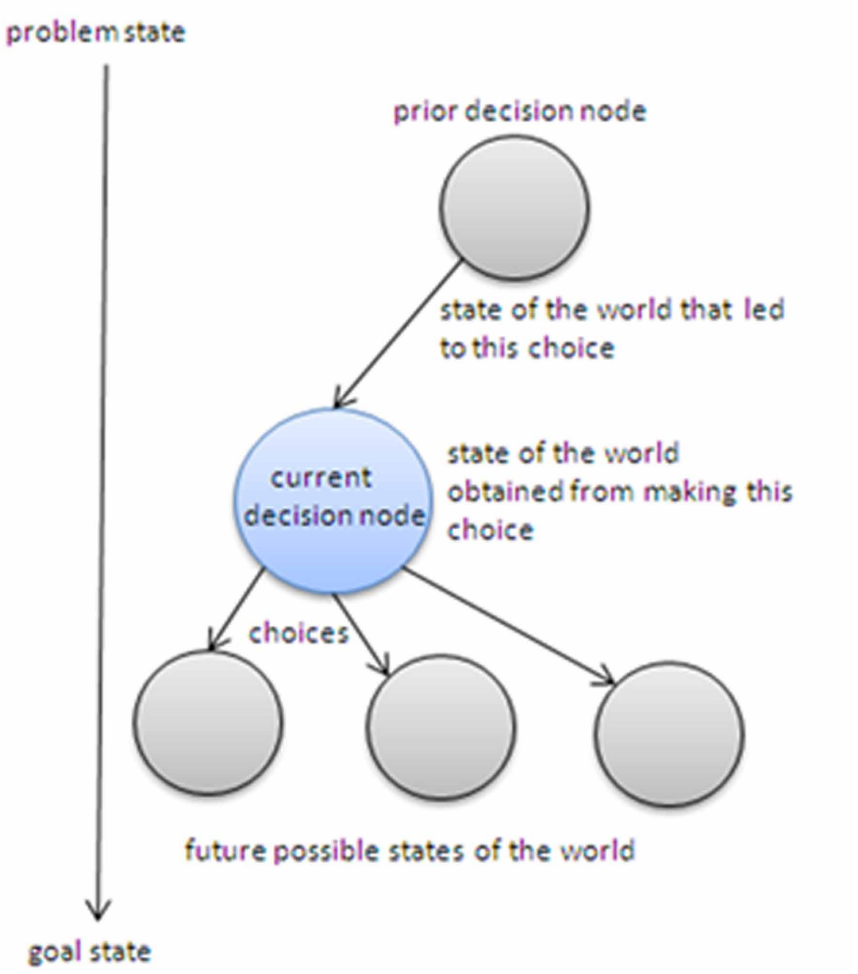
Melvin Conway was cited that: "...organizations which design systems ... are constrained to produce designs which are copies of the communication structures of these organizations", where the OAM produces a set of artefacts that map to the organization's structure and its ICS' resources (James, Grinter, & Grinter, 1999). A loose APP concept for future OAMs development, can assist in having a holistic and broad tool to non-predictive DMS4OAM that also depends on various CSFs like the types of assets, financial situation, types of organisations, business, internal political influences, etc. A *Project* should be adapted to handle complex OAM requirements that can generate complex designs and eventually problems that can be the source of unpredictability... OAM problems can be measured and weighted; while its internal financial risks are not simply measurable. This explains the difficulty of estimating the related assets investment risks of a consequential and rare OAM requirement. The *TRADf* must evaluate the OAM capabilities through the use of the DMS4OAM and the globally logged events. This chapter proposes an efficient APP concept for OAMs used for prediction, proactive financial risk management; that are the base of a holistic OAM model (Taleb, 2012).

A Holistic Model

The *Entity's* holistic organisational intelligence is a set of multiple coordinated intelligence models that correspond to various just-in-time processing schemes (Cearley, Walker, & Burke, 2016). Intelligence is a holistic human mental capability that combines information management and processing that coordinate and control various intelligence activities. Networked information coordination manages data, extracts and correlates them in space and time to detect heuristic patterns for various types of problem solving (Gardner, 1999). These heuristic patterns and their underlined semantics are used to generate sets of weightings for possible actions that are called intelligence artefacts in this research's *TRADf*. Weightings'

concept enables the AHMM4OAM based APP to build an OAM that delivers for solutions in the form of assets' values. In many cases, fast change requests may generate an important set of corresponding solutions that can be ambiguous and make the OAM actions uncertain and complex to implement. The AHMM4OAM is responsible for a rational heuristic approach for enterprise problem solving. The APP's concept is based on a holistic systemic approach to use all the *TRADf*'s components, being this chapter's main focus (Daellenbach & McNickle, 2005; Trad & Kalpić, 2016a). An OAM can give a company the most important competitive organisational (or business) advantages that may insure its future and it is not a secret that intelligent asset artefacts are the basis of a successfully transformed system (Trad, 2015a; Trad, 2015b). Major research and advisory firms like Gartner, confirm that asset services will leverage business information systems' components from various enterprise departments. Gartner confirms also that services are the dominating business enablers for Fortune 500 companies who need dynamic business intelligence support (Clark, Fletcher, Hanson, Irani, Waterhouse, & Thelin, 2013).

Figure 4. The neural network enterprise architecture component tree (Capecchi, Buscema, Contucci, & D'Amore, 2010)



For the heuristics algorithm there is a need to define the unit of work. The *TRADf* uses a limited version of TOGAF (The Open Group, 2011a). APP's building blocks are based on asset artefacts and services that use a light version of TOGAF's ADM (Trad, 2015a). This proposal's approach is based on the simplification of the enterprise architecture model, where TOGAF's ADM is recommended to integrate various development environments like test driven development that is optimal for the management of various OAM's resources and factors (Trad & Kalpić, 2018a; Trad & Kalpić, 2018b).

National Resources and Factors

The one-to-one modelling concept is used to assemble the defined units and resources of work. This modelling concept is used to manage autonomic APP instances in the implementation phase; and it is based on a real world iterative model that maps all the OAMs resources in a sequential one-to-one manner that map to CSF (The Open Group, 2011a). The *Project* OAM has to identify the initial set of CSFs to be used for the performance measurement system. In general, CSFs reflect performance areas that map to strategic goals and defined mathematical constraints. As shown in Figure 5, the *Project* must select the needed CSFs to prepare the transformation; sets of CSFs are stored in CSAs. An OAM integration causes a major paradigm shift and is complex to implement; therefore, architects should understand transformation paradigm shift's management that can have disruptive impacts on *Project*s that need an agnostic decision-making model.

Integrated Decision Making for Organisational Asset Management

The OAM integration process can adopt neural networks DMS4OAM processes, to overcome the traditional silo-like computer science approach. The OAM's integration achieves an agile holistic view of the enterprise's assets and this agility must be integrated in the enterprise's architecture model (Trad & Kalpić, 2017a; Trad & Kalpić, 2017b; Trad & Kalpić, 2017c). The proposed APP structure is based on the following definitions:

- The object is a conceptual representation of its appearance and its internal functionalities
- The AHMM4OAM is an abstraction of a system like a business process.
- The system is a way of processing, organizing or executing a set of activities that correspond to a defined plan and a related set of rules.
- The use of existing resources and credible references are prerequisites.

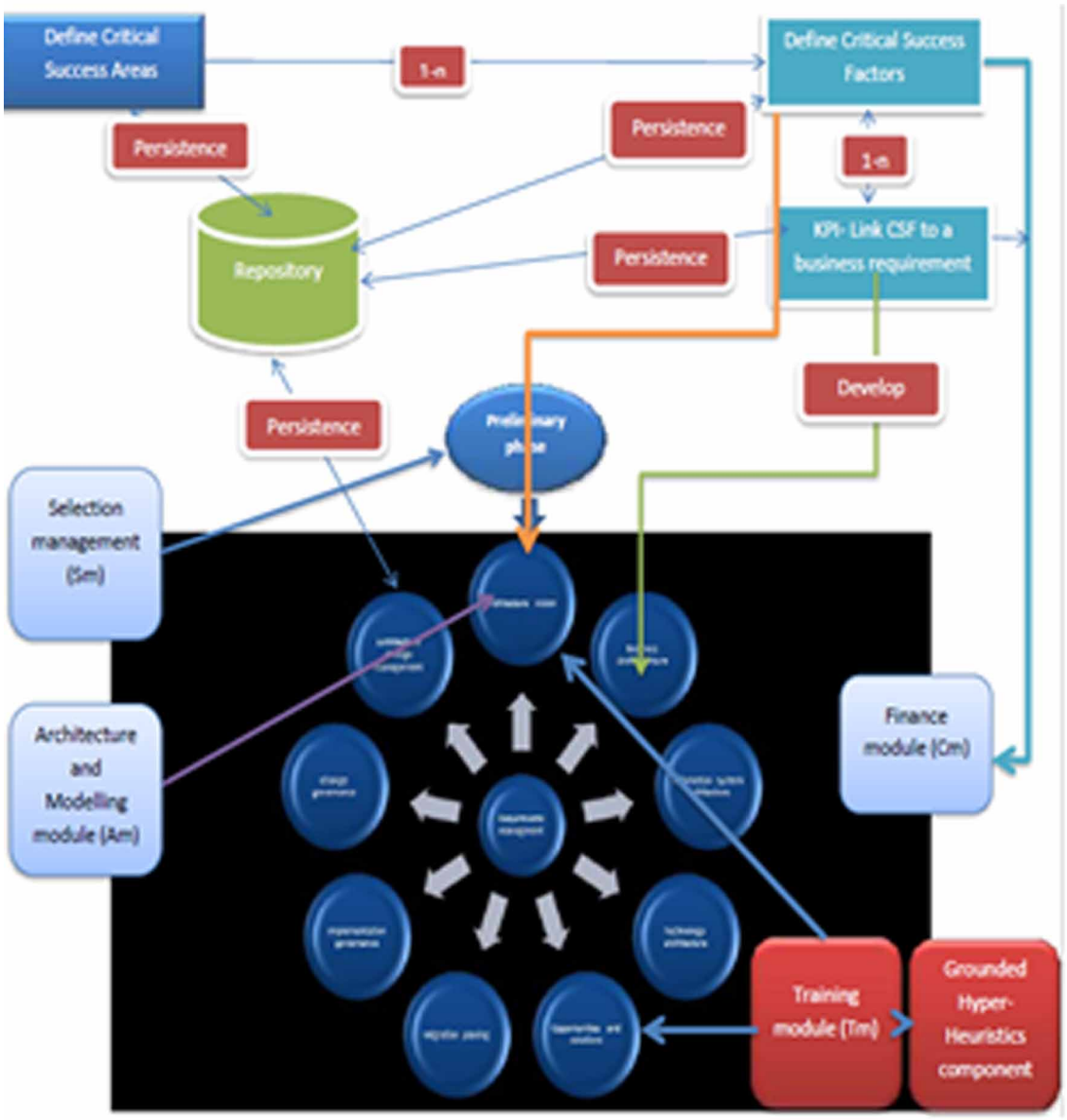
The proposed APP concept supports classical assets' implementation constructs as well as advanced holistic techniques in order to support the OAM (Trad & Kalpić, 2017a; Trad & Kalpić, 2017b; Trad & Kalpić, 2017c).

Proactive Financial Crimes Detection and National Assets' Protection

FinTech Fraud Detection

Using *TRADf*, *Project's* OAMs can design the *Entity's* optimal Cyberbusiness environments which can handle various types of external FinTech risks. External FinTech would make money more abstract and

Figure 5. The factors-based framework



difficult to trace; individuals and institutions in countries that have the culture of financial secrecy and arbitral confiscation, would be tempted to use FinTech to obfuscate the origins of money, like in the concrete cases of:

- Paula Ramada estimated the amount of lost money due to the benchmark of interest rates debacle is estimated at $300 trillion in financial instruments, ranging from mortgages to student loans. Where a trillion represents 1 billion of billions (10^9x10^9) or 10^{18}. Therefore, a change or manipulation of a mere 0.1% has a damage of 10^{15} of euros per year; this is the mechanism that banks used

to cover the decrease of loans and save their investments at the cost of ruining middle and lower-class households; whereby some banks like the Swiss UBS got much richer (Ramada, 2013). FinTech would make such operations more embedded and abstract.

- Finance and technology, as already mentioned FinTech is the technology that aims to change the traditional financial environment in the delivery of interactive financial services. The usage of intelligent financial endpoints provides some of the technologies intended to make financial services open to many external endpoints. Although FinTech can be used to tackle financial Cybercriminality, it seems that the countries that support massive financial crimes are making the largest investment in these innovative technologies (Ravanetti, 2016). FinTech companies are transforming the usage of financial services using blockchains and Bitcoin-based technologies very probably for the mere goal of financial profit (Wikipedia, 2017a).
- Blockchains and Bitcoin, Blockchain is a FinTech framework that supports cryptocurrency like the Bitcoin; Bitcoin supports exchange of currencies in a digital encryption form. FinTech automation causes the synchronization of various Cyberfinance services that need specific laws, regulation and cybersecurity mechanisms, knowing that today the most important phenomena are Cybercriminality as an emerging type of Swiss banks' financial crimes advanced criminality and on the other hand, the apparent disappearance of traditional currencies.

State, Collective Behavior and Culture Oriented Fraud

This section analyzes the notions of fraud organized by an Swiss banks' financial crimes, where the UBS, a state in a state, managed by a state, applying Swiss banks' financial crimes to destroy its opponents, and this fact is based on the following:

- The Swiss UBS, it is not just a bank, it the skeleton of the Swiss financial system and closely related to the Swiss power apparatus…
- Due to the 2008 financial crisis, the Swiss government gives this bank with no return obligations 70 billions Swiss Francs, to help it out of the crisis…*
- The Swiss UBS, in which 32 trillion US dollars are *hidden* in only one remote island, so how much has this so called bank illegally detain… (Stupples, Sazonov, & Woolley, 2019).
- The Swiss government ignores international claims on Fraud and even becomes a part of a state organized fraud … Like the tremendous anti-France fraud case…

Anti-Locked In Strategy

The Swiss Lock In

This locked-in Swiss model combines: 1) the power of Swiss law; 2) Too Big to Fail banks; 3) Banking secrecy; 4) Ultraliberal economy; 5) Rejection of local and global standards; and 6) A specific political environment. The banks and other Swiss financial institutions are under no supervision what so ever. That makes the country to become the financial industry protector that sets up fortifications against any possible intrusion; even if these institutions execute irregular and illegal activities.

Building a National Security Strategy

When building the financial structure of the future transformed national financial environment, the *Project* OAM and organizational (or enterprise architects) must be cautious of the financial locked-in situation(s). Even though some countries like Switzerland offer an attractive financial and tax package, this country applies a legal and financial locked-in trap, it is an unwritten concept that can at any moment sweep out the business environment of its financial resources. This locked-in Swiss model combines: 1) the power of Swiss law; 2) Too Big to Fail banks; 3) Banking secrecy; 4) Ultraliberal economy; 5) Rejection of local and global standards; and 6) A specific political environment. The banks and other Swiss financial institutions are under no supervision what so ever. That makes the country to become the financial industry protector that sets up fortifications against any possible intrusion; even if these institutions execute irregular and illegal activities. The peak of such behavior is the Fraud scandal of UBS bank that was hit with a historic fine and the incredible delict was openly supported and protected by the Swiss Federal Court that makes the Swiss banks' financial crimes a state model, protect by the law. Here a dilemma and a question can be asked, how such a country can be a synonym of honesty and anti-corruption… (Alderman, 2019; Tagliabuejune, 1986; Trad, & Kalpić, 2019b)

The OAM CSFs

Based on the literature review, the most important asset CSFs that are used are:

As shown in Table 3, the results justify (an average of 9.00) the usage of the OAM and how it can be used with the final PoC or phase 2.

Table 3. The OAM's CSFs that have an average of 9.00

Critical Success Factors	KPIs	Weightings
CSF_OAM_Modelling	Complex	From 1 to 10. **09 Selected**
CSF_OAM_CSFs	PossibleClassification	From 1 to 10. **10 Selected**
CSF_OAM_Domaines	VariousLevels	From 1 to 10. **09 Selected**
CSF_OAM_ADM	IntegrationPossible	From 1 to 10. **09 Selected**
CSF_OAM_Technologies	MeduimStage	From 1 to 10. **08 Selected**
CSF_OAM_Governance	Advanced	From 1 to 10. **09 Selected**
CSF_OAM_Integration_TRADf	IntegrationPossible	From 1 to 10. **10 Selected**
CSF_OAM_Protection	Possible&Complex	From 1 to 10. **08 Selected**

valuation

The Modules Chained Link to the AHMM4OAM

This section's deduction is that the application of the AHMM4OAM is central for the OAM subsystem in which the risks are mitigated.

THE APPLIED HOLISITIC MATHEMATICAL MODEL

The proposed AHMM4OAM for *Projects* and in this case the OAM, is based on various mathematical disciplines, development methods and engineering standards.

The Assets Artefacts' Model

The proposed AHMM4OAM nomenclature is presented to the reader in a simplified form to be easily understandable on the cost of a holistic formulation vision. The OAM uses the AHMM4OAM that is formalized as shown in Figure 6.

Figure 6. The applied mathematical model's nomenclature (MID, 2014)

AMM

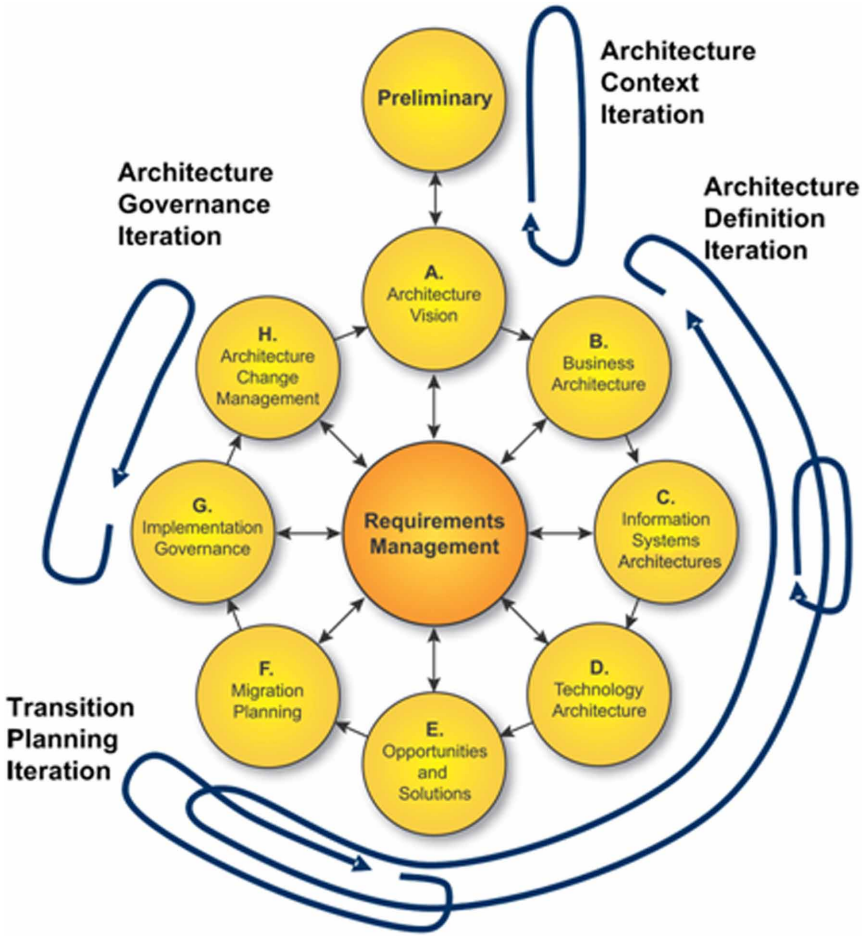
mcRequirement	= KPI	(1)
CSF	= ∑KPI	(2)
CSA	= ∑CSF	(3)
Requirement	= ∑mcRequirement	(4)
(e)neuron	= action + mcIntelligenceArtefact	(5)
mcArtefact	= ∑ (e)neurons	(6)
mcEnterprise	= ∑ mcArtefact	(7)
(e)Enterprise	= ∑ mcEnterprise	(8)
mcArtefactScenario	= ∑mcArtefactDecisionMaking	(9)
IntelligenceComponent	= ∑mcArtefactScenario	(10)
OrganisationalIntelligence	= ∑IntelligenceComponent	(11)
AMM	= ADM + OrganisationalIntelligence	(12)

As shown in Figure 6, the symbol $\sum$ indicates summation of all the relevant named set members, while the indices and the set cardinality have been omitted. The summation should be understood in a broader sense, more like set union.

The Organisational Mathematical Model

The OAM is based on the APP concept which in turn applies the AHMM4OAM. The OAM and is a part of the *TRADf* that uses service architecture to support just-in-time decision-making. The AHMM4OAM is in this research chapter presented in a simplified form, and the symbol $\sum$ indicates the summation of all the relevant elements, while precise cardinality is omitted. The OAM, as shown in Figure 7, is based on a light version of the ADM and is a part of the *TRADf* that uses services architecture.

Figure 7. The architecture development method



Services architecture enables unprecedented agility, business benefits and infrastructure scalability. These facts can be formalized in a mathematical model that needs a nomenclature, as shown in Figure 8.

The Organisational AHMM4OAM (OAHMM4OAM) is the combination of an enterprise architecture methodology like the Open Group's methodology and the AHMM4OAM that can be modelled after the following formula:

$$\text{OAHMM4OAM} = \text{Enterprise Architecture} + \text{AHMM4OAM} \quad (1).$$

Figure 8. The enterprise mathematical model's nomenclature

Model's nomenclature

mcEnterprise	A micro enterprise component
mcRequirement	A micro requirement
mcArtefact	A microartefact
action (or action)	An atomic service (or neuron) execution scheme
mcIntelligenceArtefact	A set that contains: dynamic basic intelligence + governance + persistence+ traceability + data_xsd + resources
mcArtefactDecisionMaking	A microartefact_decision making entity
mcArtefactScenario	A microartefact scenario

The Transformation Model

The transformation is the combination of an enterprise architecture methodology like the Open Group's methodology and can be modelled after the following formula:

$$\textit{Project} = \text{OAHMM4OAM} + \text{IterationGap} \quad (2).$$

The *Project's* model is based on a concurrent and synchronized infrastructure using threads that make various models run in parallel and exchange dynamically data through a mathematical choreography.

The Role of Mathematical Choreography

A *Project,* in general can support organizational (or business) transformations, OAM, organizational engineering, organizational design and enterprise architecture, where all the mentioned fields need choreography capability that in turn is based on microartefacts with a one-to-one mapping relationship. A neural network perfectly corresponds to a heuristic tree that is in fact an information processing paradigm

inspired by the biological nervous systems, such as the human brain (Wikimedia Foundation, 2016). The key element of this paradigm is the novel structure of an intelligence processing system like the AHM-M4OAM. As already mentioned, the AHMM4OAM is composed of a large number of interconnected simulated neurons, set to solve a specific OAM or any other *Project* problems. OAM units are connected to each other like nodes in a tree and there is a real number associated with each connection as shown in Figure 9, which are called weightings used in this chapter's proof of concept (Stergiou, & Siganos, 2015).

The AHMM4OAM's CSFs

Based on the literature review, the most important AHMM4OAM CSFs that were used are:

As shown in Table 4, the results justify (an average of 9.70) the usage of the AHMM4OAM and how it can be used with the final PoC or phase 2.

Figure 9. Types of asset management (STS, 2018)



Table 4. The AHMM4OAM's CSFs that have an average of 9.70

Critical Success Factors	KPIs	Weightings
CSF_AHMM4OAM_TRADf_Integration	Feasible	From 1 to 10. **09 Selected**
CSF_AHMM4OAM_InitialPhase	Stable	From 1 to 10. **10 Selected**
CSF_AHMM4OAM_PoC	Feasible	From 1 to 10. **09 Selected**
CSF_AHMM4OAM_Qualitative&Quantitative	Stable	From 1 to 10. **10 Selected**
CSF_AHMM4OAM_Final_Instance	VerifiedModel	From 1 to 10. **10 Selected**
CSF_AHMM4OAM_ADM_MMs_Integration	Synchronized	From 1 to 10. **10 Selected**
CSF_AHMM4OAM_GA_Interfacing	Stable	From 1 to 10. **10 Selected**

valuation

The Modules Chained link to the Information and Communication System's Integration

This section's deduction is that assets' management depends on information system's technology and that the next focus will be on the ICS' integration.

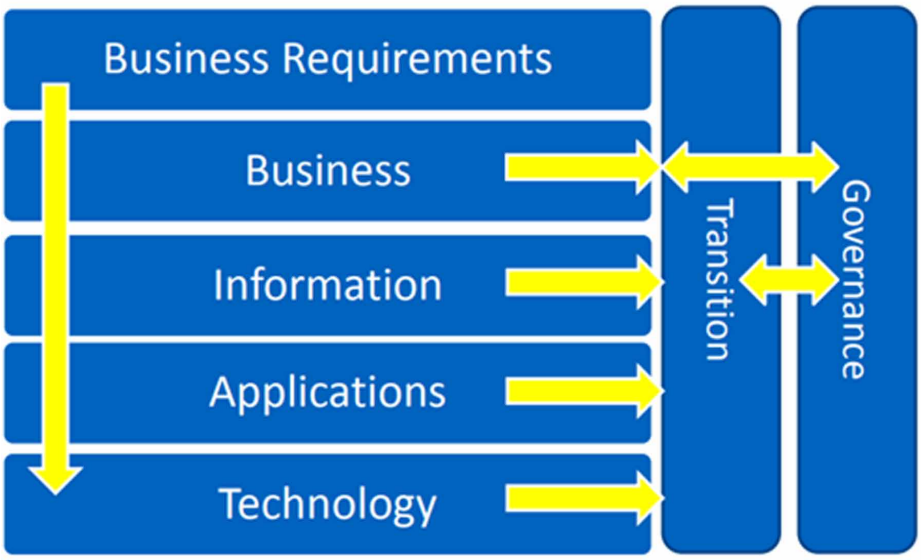
THE INFORMATION AND COMMUNICATION SYSTEM's INTEGRATION

Global or holistic Organisational agility is achieved by combining various methodologies that promote organizational and technological agility to be used on various levels of the *Project* to unbundle the existing Entity and glue its renovated parts using a dynamic ICS components and microartefacts as shown in Figure 10. Using a bottom-up approach, the *Project's* OAM can design the optimal ICS's integration concept that can handle various types of subsystems to be used in the standard ADM.

Architecture Development Method's Integration

The ADM integration in the OAM and *Project* enables the automation of all their activities, throughout all the ADM iterations. The ADM encloses cyclic iterations; where all their phases log information to a unified logging system. OAM platforms are not dedicated to any specific business environment and offer: 1) OAM performance; 2) reliability; and 3) national OAM security. These platforms are controlled and monitored in real-time using unified logging subsystem and are integrated to support the AAPs' interactions.

Figure 10. The ICS' interaction with various modules



APP's aBB Microartefact

APP's microartefact is an instance of the building block that can interact with other *Project*s microartefacts in a traced and synchronized manner and uses TOGAF's ADM to assist it in the grouping of the needed services (The Open Group, 2011a). APP's underlined model includes microartefact scenarios of interactive atomic service actions. Atomic services make the integration flexible (Trad & Kalpić, 2017a). DMS4OAM's components support the *Project* by offering microartefacts that are instances of the building blocks.

The Financial Building Blocks

Using TOGAF's ADM, the *Project* OAM can design the optimal OAM environment that can handle various types of OAM's risks. FinTech, is the technology that has the aim to transform the traditional financial environment in that it delivers interactive financial services. The usage of intelligent financial endpoints provides some of the technologies intended to make OAM open to many assets' internal and external ICS endpoints (Ravanetti, 2016; Wikipedia, 2017a). The main danger effecting assets is fraud.

FinTech Fraud

The FinTech transformation aim is to make money abstract and impossible to trace; individuals and institutions in countries that have the culture of financial secrecy and arbitral confiscation, like Switzerland, would be tempted to use FinTech to obfuscate the origins of money. Paula Ramada estimated the amount of lost money due to the benchmark of interest rates debacle is estimated at $300 trillion in financial instruments, ranging from mortgages to student loans, where a trillion represents 1 billion of billions (10^9x10^9) or 10^{18}. Therefore, a change or manipulation of a mere 0.1% has a damage of $300*10^{15}$ of euros

per year; this is the mechanism that banks used to cover the decrease of loans and save their investments at the cost of ruining middle and lower-class households; whereby some banks like the Swiss UBS got much richer (Ramada, 2013). FinTech would make such operations more embedded and abstract.

The Legal Aspects and Security Violations

The European commission defines a legislation to govern businesses and their assets; progress has been done in these fields. European commission's member states have implemented and enforced assets management national practices. Transactions resulted in value, have to be security, legally asserted, traced, and their periodic summaries are reported to the executive assets management (Fu & Mittnight, 2015). Businesses and their assets are orthogonal to security requirements, where the business environment's roles define the responsibility for enterprise's wide assets and resources. Management of the enterprise's assets, legal interests, resources, and accesses, should be managed by assets manager who is assisted by an enterprise architect. Then, the enterprise structure can integrate assets assertion and access management related to OAM Transaction's execution. The regulation for the transaction's security and law needs qualified time-stamps for robust certifications like those used in the European Union (European Union, 2014; Trad & Kalpić, 2016b).

International Law

The literature review showed that international law on assets security is inefficient and archaic. Avant-gardes countries are hesitant to implement assets related international law that is based on the emergence of non-government norm-making initiatives. These states insist on their traditional central legal system that marginalizes the inter-state governance of the global sphere (Mačák, 2016; Trad & Kalpić, 2016a).

The ICS' CSFs.

Based on the literature review, the most important legal CSFs that are used are:

As shown in Table 5, the results justify (an average of 9.00) the usage of the ICS and how it can be used with the final PoC or phase 2.

THE MODEL'S IMPLEMENTATION

The Proof of Concept

The Proof of Concept (PoC) was built using the *TRADf* that had been developed using the Microsoft Visual Studio .NET and Microsoft Excel. The PoC is based on the CSFs' binding to a specific RDP resources, where the OAM was prototyped using an EAP tool. The reasoning model represents the relationships between this research's requirements, microartefacts (or building blocks) and the CSFs.

The PoC was setup using *TRADf* as shown in Figure 11; where the APP uses microartefacts that make calls to APP microartefacts as shown in Figure 12.

Table 5. The ICS' CSFs that have an average of 9.00

Critical Success Factors	HMM enhances: KPIs	Weightings
CSF_ICS_GUID_IntegrationProcessesModels	Standard	From 1 to 10. **09 Selected**
CSF_ICS_Standards	AdvancedState	From 1 to 10. **10 Selected**
CSF_ICS_AtomicServices	Supported	From 1 to 10. **09 Selected**
CSF_ICS_Performance	Exists	From 1 to 10. **08 Selected**
CSF_ICS_DistributedCommunication	Stable	From 1 to 10. **09 Selected**
CSF_ICS_FinanceIntegration	ExistingSupport	From 1 to 10. **09 Selected**
CSF_ICS_Security	Complex	From 1 to 10. **09 Selected**
CSF_ICS_ADM_Automation	Supported	From 1 to 10. **08 Selected**
CSF_ICS_Pattern_StandardsIntegration	Supported	From 1 to 10. **09 Selected**
CSF_ICS_Procedures	Supported	From 1 to 10. **10 Selected**

valuation

CSFs were selected as demonstrated in this chapter's tables and the result of the processing of the DMS4OAM, as illustrated in Table 6, shows clearly that the OAM is not an independent component and in fact it is strongly bonded to the *Project*'s overall risk architecture.

The model's main constraint is that CSAs having an average result below 7.5 will be ignored. This fact leaves the OAM's CSAs (marked in green) that helps to make this work's conclusion, which means that the OAM is implementable.

SOLUTION AND RECOMMENDATIONS

In this chapter, the author proposes the following set of organisational, technical and managerial recommendations:

- As mentioned in this chapter is a part of a long series of article and the author's framework.
- The applied case study, mathematical models and PoC are parts of the author's framework.
- It is recommended to refer the author's *Using Applied Mathematical Models for Business Transformation*; and IGI complete book. In order to understand the applied framework and flow. This will make this chapter understandable because it follows a predefined model.
- The applied model is generic and can be applied to any field and in case and any situation. In the case of Lebanon an APP is more than essential because of various attacks on this country which end by the destruction of its assets. Like the cases of the Intra Bank and the latest economical critical situation. Mainly caused by predatory institutions.

- A *Project* must build a holistic organisational architectural concept in order to insure an efficient OAM.
- Enormous efforts must be applied to integrate underlying ICS to support a huge number of OAM transactions. Here the main problem is alignment because information systems are silos.
- OAMs should replace traditional assets management systems in order to improve accountability.
- OAM and *Project's* alignment should fit in the company's global architecture framework. That is a very difficult task.
- The ADM's integration in a OAM enables the automation of all its activities.
- National assets are orthogonal to security and legal requirements.
- Avoid any form of collaboration with doubtful financial and assets management organizations.
- Lebanon (and other countries) should apply strict principles against predators; like the Swiss ones.

Figure 11. The TRADf frontend

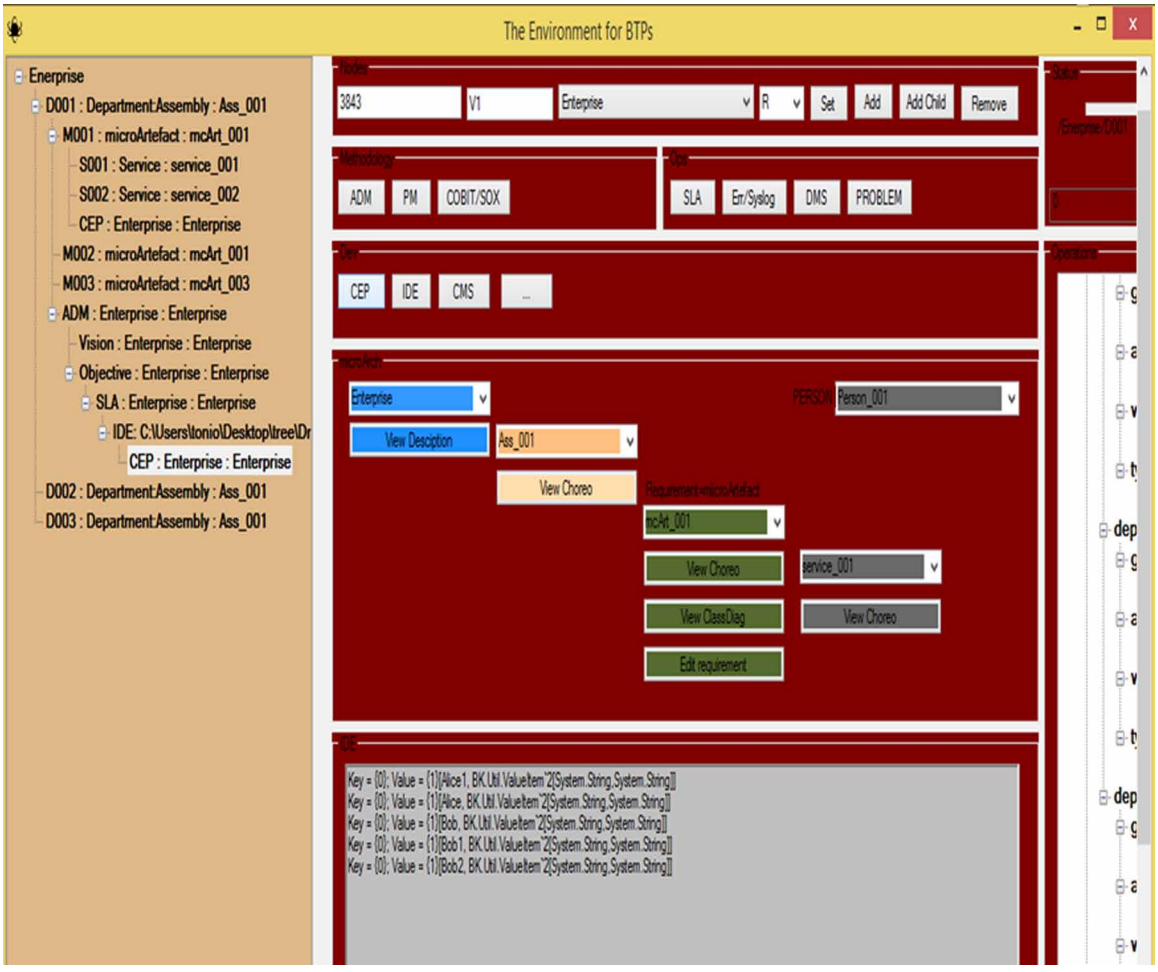
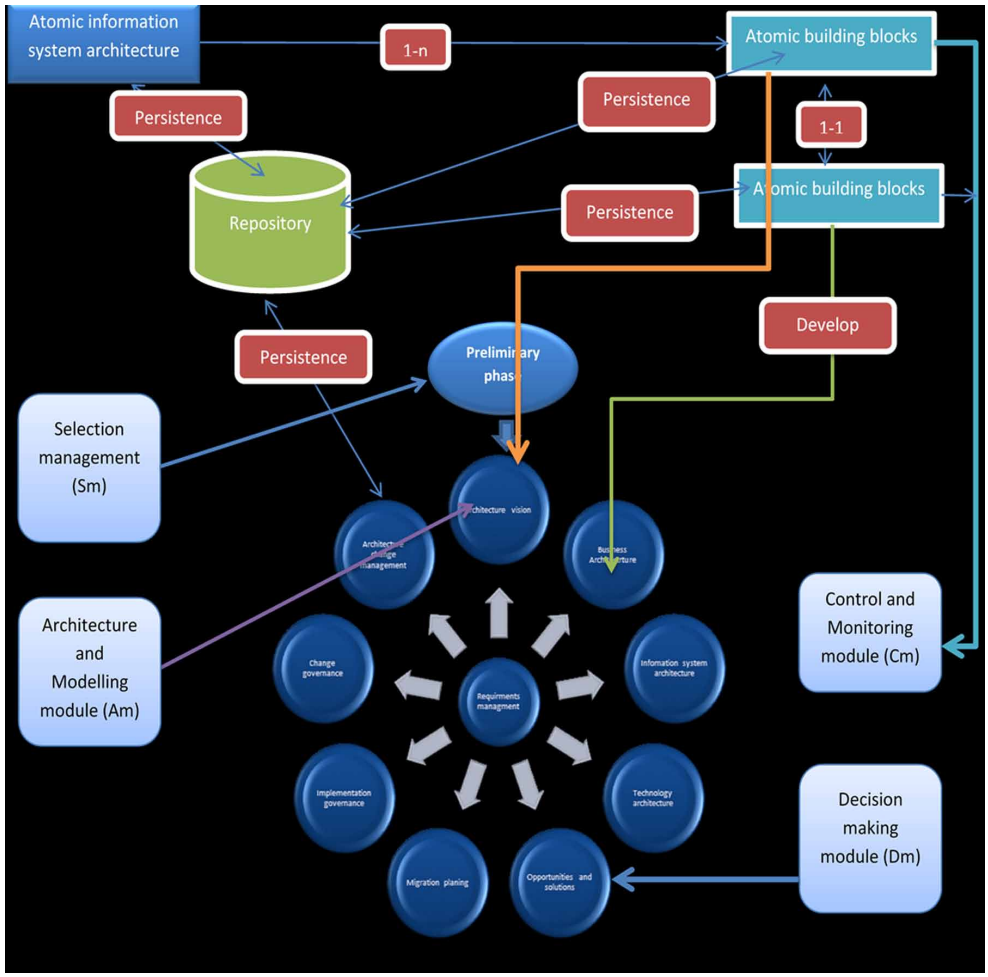


Figure 12. The research flow



FUTURE RESEARCH DIRECTIONS

The *TRADf* future research will focus on the evolution of the distributed system's intelligence.

CONCLUSION

This RDP phase is part of a series of publications related to *Project*s, OAM and organisational architectures. This research is based on mixed action research model; where critical success factors and areas are offered to help *Project* architects to decrease the chances of failure. In this chapter, the focus is on architecture alignment. OAM and EA alignment is architecture-driven and describes a structured inter-relationship between the assets, finance, technical and procedural security solutions to support the long-term needs of the business environment. The APP component's holistic integration is an important factor for the information system's evolution. The most important managerial recommendation that was

Table 6. The asset management research outcome, is 9.3

CSA Category of CSFs/KPIs	Influences transformation management	Average Result
The RDP Integration	Complex	From 1 to 10. 9.25
The Applied Case Studies	FullyIntegrated	From 1 to 10. 9.40
The Information and Communication Technology System	Transformable	From 1 to 10. 9.00
The Applied Mathematical Model	Implementable	From 1 to 10. 9.70
The Organizational Asset Management System	Implementable	From 1 to 10. 9.00

Evaluate First Phase

generated by the previous research phases was that the business transformation manager must be an architect of adaptive organisational systems.

The PoC is based on the CSFs' binding to a specific research resources and the reasoning model represents the relationships between this research's requirements, microartefacts and the CSFs. The result is that assets management and the applied mathematical model CSAs are very important for OAM.

ACKNOWLEDGMENT

In a work as large as this research project, technical, typographical, grammatical, or other kinds of errors are bound to be present. Ultimately, all mistakes are the authors' responsibility. Nevertheless, the authors encourages feedback from readers identifying errors in addition to comments on the work in general. It was our great pleasure to prepare this work. Now our greater hopes are for readers to receive some small measure of that pleasure.

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KEY TERMS AND DEFINITIONS

ADM: Architecture development method.

AofABE: Architect of adaptive business *TRADf*s.

Critical Success Factors: Can be used to manage the statuses and gaps in various project plans and gives the project the capacity to proactively and automatically recognize erroneous building blocks and to just-in-time reschedule the Project plan(s).

Manager: Business transformation manager.

OAM: Enterprise asset management.

Project: Business transformation project.

TOGAF: The Open Group's architecture framework.

*TRADf***:** Is this research's framework.

Chapter 31
Economics and Financial Implications of Coronavirus Disease (COVID-19)

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ABSTRACT

The strong spread of coronavirus (COVID-19) in a very short time has revised the global forecasts and the focus has revolved into economic and financial recovery. During this crisis, the stakes will depend on the combination of health and economic policy, the behavior of people, and the condition of the financial market and industries. This chapter highlights the huge economic and financial impact of Coronavirus, especially in the Eurozone and the USA, and how these governments are responding to this worst crisis. Further, it highlights the different lines of modification of the "Brexit" agreement. Finally, this chapter deals with the important effect of globalization in the context of this health crisis.

INTRODUCTION

The Coronavirus disease (COVID-19) is an infectious disease brought about by a newfound coronavirus. This virus affects most elderly people and those with basic clinical issues like cardiovascular ailment, diabetes, chronic respiratory ailment, and cancer (World Health Organization, 2020). At the beginning of the pandemic, analysts predict that it was a health crisis and not a financial crisis. Typically, in any pandemic, the worst-case scenario implies its prolongation to cities in developing countries marked by a very high number of people, the poverty of health and financial institutions, and millions cannot afford to pay treatments available.

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However, during this pandemic, there are also larger emerging and developed countries that will suffer more losses due to the loss of tourism and the strong spread of viruses. (Mansour & Ben Salem, 2020). In this sense, tourism is the act and process of spending time away from home in pursuit of recreation, relaxation, and pleasure, while making use of the commercial provision of services. As such, tourism is a product of modern social arrangements, beginning in Western Europe in the 17th century, although it has antecedents in Classical antiquity (Walton, 2018).

Currently, with the spread of its effect, the COVID-19 pandemic could be the most serious challenge to the real economy and financial sector in almost a century (PWC, 2020). As the economic fallout spreads, the government juggles concrete rules to reposition the financial sector and recalibrate the health services and the economy for the future.

Despite global efforts to avoid its spread, the COVID-19 has quickly spread from china to 213 countries and regions around the world. There are now more than 6,723 million affirmed cases of the virus worldwide and more than 393.55 individuals have died, as indicated by the World Health Organization and World-meter on 5 June 2020. In the United States and its regions, the number of affirmed cases has surpassed 1,924,760, while the death ascended more than 110,176.

The coronavirus disease mainly affected the USA, Spain, Italy, France, Germany, and the UK. Based on (table 1), 28.61% of cases and 27.99% of death have been in the USA while, 4.5% of cases and 32.95% of death have been in Spain, Italy, France, and UK (Marketwatch, 2020). Further, it has quarantined more than 90% of the U.S. population. The AFP report stipulates that the coronavirus pandemic has killed more than 15,000 persons in Europe. Four European countries have surpassed the 20,000- death threshold, which are Italy, Spain, France, and the United Kingdom, which is hard hit by the coronavirus

Table 1. Characteristics of most affected countries by the coronavirus disease 2019 (COVID-19) on 05 June 2020

Country	Total cases	Total deaths	Mortality rate (%)	Serious cases	Tot Cases/1M pop	Deaths/1M pop	HCI [2]
World	*6,724,096*	*393,553*		*55,458*	*868*	*50,5*	
Spain	*287,74*	*27,133*	*9,42*	*617*	*6,154*	*580*	*78,68*
Italy	*234,013*	*33,589*	*14,35*	*338*	*3,57*	*557*	*66,59*
France	*152,444*	*29,055*	*19,05*	*1,163*	*2,336*	*445*	*79,99*
UK	*281,66*	*39,904*	*14,16*	*604*	*4,151*	*588*	*74,46*
Germany	*184,923*	*8,736*	*4,72*	*600*	*2,208*	*104*	*73,32*
USA	*1,924,189*	*110,179*	*5,72*	*17,083*	*5,816*	*333*	*56,29*
Brazil	*615,87*	*34,039*	*5,52*	*8,318*	*2,899*	*160*	*69,27*
Canada	*93,726*	*7,637*	*8,17*	*1,727*	*2,485*	*202*	*71,84*
Russia	*93,558*	*867*	*0,92*	*2,3*	*641*	*6*	*57,59*
Iran	*164,27*	*8,071*	*4,91*	*1,958*	*1,958*	*96*	*51,7*
China	*83,027*	*4,634*	*5,58*	*2*	*358*	*3*	*64,48*
Japan	*17,011*	*903*	*5,3*	*102*	*135*	*7*	*81,14*
India	*227,273*	*6,367*	*2,8*	*8,944*	*165*	*5*	*67,13*

Mortality rate (%)= (Total deaths / Total cases); HCI: Health Care Index
Source: World Health Organization and Worldometer

crisis, will be obliged to participate in the European recovery budget after the pandemic. Indeed, a Brexit without an agreement is preferable to extending the transition period beyond December 31. The country will still be subject to European regulations and will have to participate in the budget.

Compared to the survey presented by Lai et al on 29 February 2020, values were sharply augmented. At the global level, the cumulative cases have increased 79-fold. By country, the USA presents the most serious multiplied by 16705.7-fold by the report of 02/29/2020 then France by 2912 times.

This chapter highlights the huge economic and financial impact of Coronavirus, especially in the Eurozone and the USA, and how these governments are responding to this worst crisis. Further, it highlights the different lines of modification of the "Brexit" agreement.

BACKGROUND

GDP Growth Variation and Macroeconomic Implication

A forecast revision supervised by the IMF staff and the S&P global rating explored how COVID-19 is affecting the previous anticipation, conducted in 2019, on global GDP (International Monetary Fund). According to these reports, the sharp deterioration in macroeconomic prospects has significantly reduced the global GDP forecasts for this year, table2, graph1. The present prevision anticipates that the global GDP reduces to 2.4% in 2020 before a regress to 5.9% in 2021 and 3.9% in 2022. Graph 1 shows that many advanced economies enter to economic recession this year especially Italy, France, and Germany.

For the U.S.A, the S&P Global Ratings slashed its forecasts GDP falling 5.2% this year, which is considerably worse than March's anticipation of a 1.3% drop. This includes a historic annualized decline of almost 35% in the second quarter; witch is the sharpest contraction in economic activity since World War II. Noted that this anticipation could be revised downwards following the sharp drop in oil prices (S & P Global).

Table 2. Global GDP growth forecasts

		Q1-CCC-	--New--		
(%)	2019	2020	2020	2021	2022
The U.S.A	2.3	(1.3)	(5.2)	6.2	2.5
Eurozone	1.2	(2.0)	(7.3)	5.6	3.7
Germany	0.6	(1.9)	(6.0)	4.3	3.3
France	1.3	(1.7)	(8.0)	6.1	4.5
Spain	2.0	(2.1)	(8.8)	5.1	4.3
Italy	0.2	(2.6)	(9.9)	6.4	3.2
The U.K.	1.4	(2.0)	(6.5)	6.0	3.2
China	6.1	2.9	1.2	7.4	4.7
India	5.3	3.6	1.8	7.5	6.5
World	2.9	0.4	(2.4)	5.9	3.9
CCC--Credit Conditions Committee Sources: S&P Global Economics and Oxford Economics.					

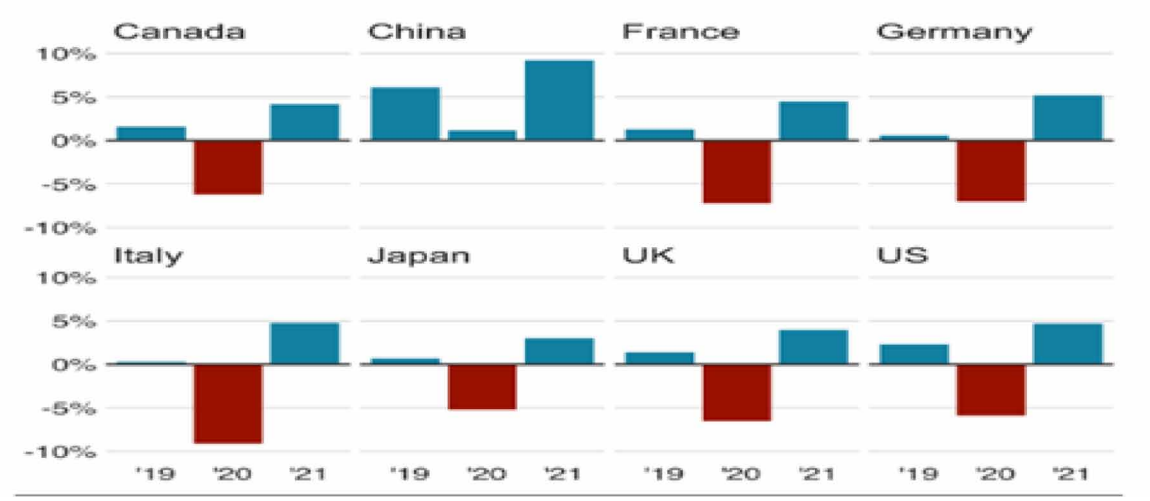
GDP forecasts for Eurozone reduce to 7.3%. A sharper reduction for Italy, Spain, and the U.K, which are the lion's fraction of downward revisions. The report adding that the economic activity in the Eurozone is unlikely to stabilize by the end of the second quarter, and external EU borders might not fully reopen by summertime.

The EU is facing a difficult recovery after the economy is shut down necessitated by the coronavirus. The pandemic is exacerbating differences within the region. Fiscally well-off countries such as Germany have been able to flood their economies with aid and development funds, while countries such as Italy that were already taxed financially are struggling to pay for necessary economic rebuilding.

Macroeconomic Implication

For the USA: The downward revision primarily affects the USA's macroeconomic fundamentals and surprises the economic activity in a few emerging market economies, Figure 1.

Figure 1. The annual GDP forecast for several advanced economies
Source: International Monetary Fund, 2020



Beth Ann Bovino[1] points out that overall unemployment could reach 19% in May closer to the announced 1930s Depression-era peak of 25% than the 10% important during the subprime crisis in 2008-2009. The Labor Department's weekly database on unemployment claims indicated that 26 million Americans have needed benefits in the past five weeks.

Moreover, the federal deficit is anticipated to arrive at its highest level since the Second World War. President Trump has required a $ 2 trillion stimulus for infrastructure. Beth Ann Bovino added that at the lower bound, the federal funds rate would stay close to zero until sometime in 2023.

The coronavirus transmission channel from the USA to the emerging market, see mainly through the capital flight. Between January and March, foreign investors dragged $83 billion out of emerging market debt and equities (Aviva Investors, 2020). China and the Indian economy are the most affected by these capital flight, which requires the IMF to a reassessment of growth prospects over the next two years,

table 2. Nonetheless, this does not prevent these countries to benefit from lower oil prices, especially north Asia, and India. (Aviva Investors, 2020)

For Eurozone: The worst economic recession in the USA, the principal market for European exports, causes historic lows in European macroeconomic fundamentals. Also, a significantly lower oil price could affect demand in OPEC and Russia, which together record for over 7% of European goods exports--half as much as the U.S. This will undermine some of the advantages that Europe gets from lower inflation-related with lower oil prices.

From an internal perspective, the severity of the economic impact for Europe (reasonable or profound) will mainly depend on the duration of confinement, the real activities dynamic in major economies members, and the efficacy of government responses to the crisis. A longer contraction in GDP growth might end in lower employment, once governments have removed the short-time working schemes. This might also cushion less assured workers depend on temporary and seasonal contracts in the hardest-hit sectors like tourism. The unemployment rate reaches its higher level, 7.3% for the Eurozone, and 5.8% for the U.K. (World Health Organization).

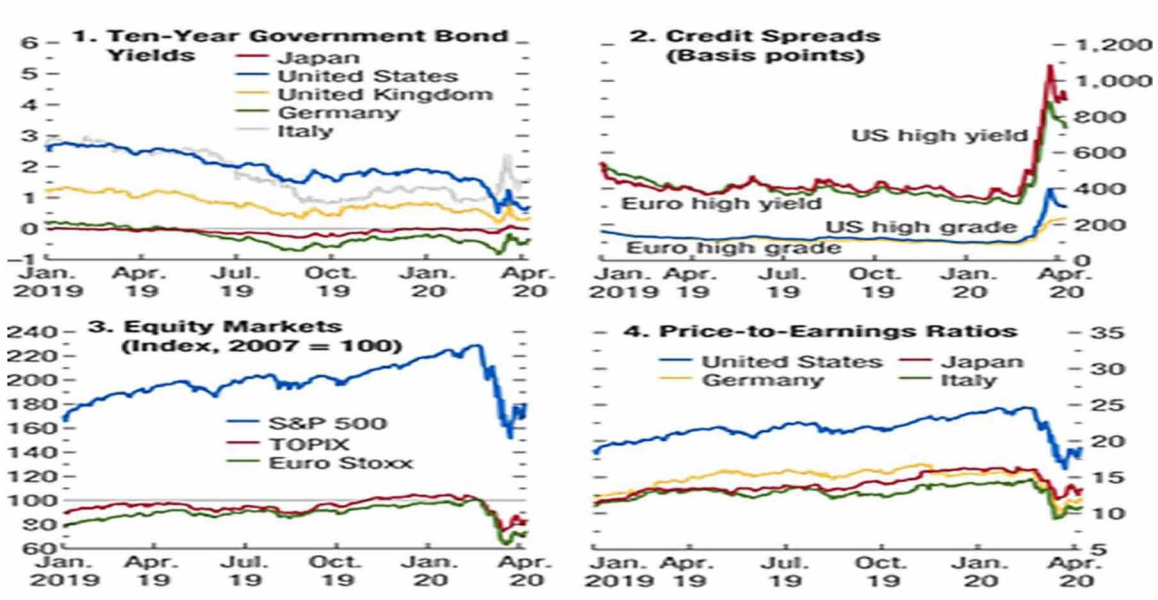
FINANCIAL MARKET AND BUSINESS IMPLICATIONS

The spread of COVID-19 has shaken businesses and organizations globally, radically affecting the movements in the financial markets. Uncoordinated governmental responses have unbalanced the supply and demand chain. Initially, in China, lockdown restrictions slow down the product supply by Chinese industries, while quarantine and self-isolation policies reduced consumption, demand, and utilization of products and services. (El Mapa del coronavirus en España, 2020). In a very short time, the virus has rapidly progressed to affect the rest of the world. China will begin to recover faster than the rest of the countries, strengthening its trade negotiating power against the US (World Health Organization).

In addition to the disruption in the supply chain, the capital market sector has also been affected. For the US, the S&P 500, the Dow Jones Industrial Average, and the Nasdaq Composite Index drop significantly until the US government secured the Coronavirus Aid, Relief, and Economic Security (CARES) Act, with the indexes increasing by 11.62% (Silivia, 2015), 9.88% (CARES) and 15.09% (CARES) respectively, compared to the last month. However, their recovery was threatened by the sharp decrease of crude oil' barrel, for the first time, which dropping into negative territory for the first time earlier in the week (World Health Organization). This surprised decrease, reduce the below indicators by -1.32%, -1.93%, and 0.18% respectively on 22 April 2020.

Furthermore, 10-year US Treasury bond yields have dropped to 0.60%, which is lower than the long-term average of 4.48% Graph 2. In the Asian markets, the same pattern followed with China's Shanghai Composite, Hong Kong's Hang Seng, and South Korea's KOSPI initially dropping and followed by a rise in stocks after governmental support. The European bond yields have declined sharply, reaching market stress hit levels faced in the Eurozone crisis of 2011-2012. London's FTSE 100, France' CAC 40, Germany's DAX, and the Euronext 100, were all down in the first period of coronavirus but rose moderately after the EU's rescue package was agreed in April, Figure 2. London's FTSE 100 is off 1.28%, France's CAC 40 is lower by 1.30%, and while DAX is downward 1.69% and Euronext 100 reduce by 1.38% (Wallach and Myers, 2020).

Figure 2. Monetary and financial market conditions
Source: Thomson Reuter's data stream and IMF staff calculation



The European stock market indices have declined sharply, reaching market stress hit levels faced in the Eurozone crisis of 2011-2012. Short selling aggravates worsens the free fall in the stock price. The Europe Short Selling Regulation authorizes the European Securities and Markets Authority ("ESMA") the possibility to control exceptional situations to decrease risks and increase confidence in the short-selling market (Aviva Investors, 2020). In this terrible period, the credit spread increases sharply from its higher level, as pointed by Figure 2.

GOVERNMENT RESPONSES TO CORONAVIRUS CRISIS

Government measures to avoid the coronavirus spread have intensified in the past three months amid a tripling of confirmed cases globally, to more than 3 million. Almost all countries started by improving health services, supporting business and workers, and strengthening political strategies.

The Eurozone COVID-19 pandemic is affecting most communities over the world. Europe leaders all its resources to help its partners in detecting, preventing, and controlling agents' behaviors during the disease. Amongst others, the response includes the development of technical guidance and information for the health- and social care services, as well as protects the firms and strengths the coordination between countries members. Also, it focuses to create and improve several platforms in different areas, social, economic, solidarity, research, and development, as so on, to support its partners and to provides evidence of how resident health systems are reacting to the Coronavirus disease.

Italy for example, the most affected country in Europe, started reformed from January 31st when it appointed Special Commissioner for the COVID-19 emergency, (Borrelli, 2020), On 22 February, the government imposed the quarantine of more than 50,000 people from 11 municipalities in Northern

Italy, (Ouest France, 2020). Other than sanctions for violations range from a €206 fine to three months of imprisonment, (S & P Global). For the United Kingdom, protectionist measures have started on 10 February when the government announced the Health Protection regulations on the Coronavirus disease. This regulation aims to detect early cases, low the spread in the UK, improve the R&D on vaccines, and provide the best care possible for sick people.

Other measures have been published by the governments of countries member which we can summarize in three main voices; healthy, financial market or industry, and politically.

For the healthy level: The European zone has taken active measures to avoid and minimize the spread of the coronavirus. It's imposed a coordinated temporary restriction on non-essential travel to the Eurozone members. (Europa.eu, 2020). Establish a COVID-19 Clearing House to promote the transmission of medical equipment at the EU partner. Europe has also mobilized €140 million to develop vaccines and agreed on a swift measures package of €20 billion to support partner countries' efforts in preventing the virus spread. These measures addressed especially to Italy, 1 million masks from France, 7 tons of medical equipment from Germany.

From the financial market and industry levels: On 6 April, the Italian government announced an additional economic simulation plan, including €200 billion of state-guaranteed loans to firms and €200 billion of guarantees to promote exportation.

National competent authorities ("NCAs") restricted short selling. A restriction was executed in Italy, Austria, Belgium, Greece, France, and Spain (Aviva Investors, 2020). The European Banking Authority ("EBA") pushed banks to follow prudent and fast measures on the financial market and use capital to secure continuous financing to the economy. Also, it exhorted all banks to slow down from dividend distributions to keep robust capitalization.

The European Investment Bank is offering liquidity support to promote the small and medium industries as part of an "emergency support package" of €40 billion. Under this package, the European Central Bank has transmitted a €750 billion for private and public- assets purchased during the crisis. This provides in addition to the €120 billion announced earlier.

Politically; The previous European Central Bank president, Mario Draghi, declared that the loss following the coronavirus is comparable to that of the first World War.[6]

Since the early of the crisis, the partner country has continuously redoubled efforts to stimulate the economy. The European Commission has targeted a more expansionary budgetary policy rule during the crisis (Buck et al, 2017). Important public resources are oriented to reinforce the healthcare services and civil protection mechanisms and to promote impacted workers and economic sectors. To date, the total value of Member States' fiscal measures reaches 3% of European GDP, which is a threefold rise since 16 March (European Council).

Furthermore, Member States continued to offer liquidity support for sectors facing liquidity shortages, consisting of public guarantee schemes and deferred tax payments, which are reached 16% of European GDP, against 10% on 16 March (European Council).

By the beginning of April, the European Central Bank (ECB) published its initiation to promote the monetary policy strategy from a late 2020 objective to the middle of 2021. Further, it announced the purchase of an additional €750 billion of European corporate and government bonds to stabilize and reinforce the Euro.

The United States

The Federal Reserve has intervened with a massive array of actions to promote the American economy from the pandemic, offering up to $2.3 trillion in lending. Also, it has recently reduced its target for the federal funds rate, the interbank rate, by 150 Pb bringing it down to the ground of 0% to 0.25%. This action will reduce the cost of lending, but it will also low the interest profit that savers gain (Federal Reserve Statement, March 2020).

Encouraging Banks to Lend, the Fed also reduced the rate that it costs banks for loans from 1.75 percent to 0.25 percent, lower than during the financial crisis. Likewise, it prolonged the terms of these credits to 90 days- typically, they were set for one day, and it is overnight.

From the health level, the Trump administration has secured an 8.6$ billion as a supplemental appropriation bill to support vaccine and treatment research, emergency telehealth, and preparedness.

At the financial level, the US government settled "the Coronavirus Aid, Relief, and Economic Security (CARES) Act" provides large economic assistance for American workers, families, and small businesses. Further, it financed by the Paycheck Protection Program up to $349 billion to preserve jobs in the small industries. The US Treasury Department issued $500bn in loans and loan guarantees to be issued for small and large industries.

The CARES Act granted funds for small businesses to pay up to 8 weeks of payroll costs including benefits. Funds can also be exploited to pay interest on mortgages and rent. It will also offer the possibility for companies to request for an Economic Injury Disaster Loan advance of up to $10,000 (U.S. Department of the Treasury, 2020) and will provide $349 billion to support the job in the small businesses (U.S. Department of the Treasury, 2020).

Wallach and Myers (2020) stated that the United States' response to the COVID-19 marked by massive failures of judgment and inaction in the three months ago. They added that, while mistakes are inevitable in the face of a massive and rapidly evolving domestic and global challenges, the federal government's response compares unfavorably to several other countries, which confronted the virus before the USA (Marketwatch, 2020).

HOW WILL COVID-19 AFFECT BREXIT?

"Brexit" is a composite name of "Bre" (British) and "exit" indicates the process of withdrawal of the United Kingdom from the European Union; after a UK-wide referendum in June 2016, in which 52% voted for the exit and 48% voted to stay in the EU, the British government officially declared the country's leave. During the transition period, they convinced that The UK stays under the European law and stays part of the "EU customs union and single market", but it will not be part of the EU's political organism or institutions.

In principle, this exit will be effective, according to the withdrawal agreement, on February 1, 2020. However, the economic disruptions of COVID-19 and the accompanying geographic uncertainty will cast a shadow over "Brexit"; Talks have been delayed, the negotiators themselves have been sick and policymakers have needed to give their full attention to fighting the virus. Nevertheless, the U.K. continues to insist it will not ask for or accept an extension in June, the current deadline for establishing such measures. As a result, European politics is back to its usual brinkmanship, despite the very unusual times of the pandemic.

Many scientists, such as James Smith, noted expect there will be future outbreaks even after the current lockdowns are lifted, and these could be deeply disruptive to the extent they overlap with the end of the "Brexit" transition period. Supply chains have been resilient for now, but introducing a new border control or customs process could change that, (Rebecca, 2020).

The Coronavirus pandemic raises Brexit's prolongation proposal, its extension has been mentioned in the market and political commentary, and it has reinforced by this crisis. The Scottish National Party leader of the British Parliament has stressed that the British economy could lose two million jobs and shrink by 35%, which would require refocusing on tackling the crisis and building on closer ties with the EU-27. Some extensions have already been established especially in the areas of the financial services, where efficient progress was a priority.

In terms of Immigration, the Coronavirus crisis will complicate the already difficult issue of how the U.K. and the EU should treat each other's citizens, who have grown used to the ability to move around freely to live and work within the single market. The pandemic has closed borders, severely restricted travel, and made it very difficult for citizens abroad to get home, let alone move their residence. This puts pressure on an already overtaxed U.K. settlement scheme, which has been criticized for being slow, opaque, and vulnerable to incorrect determinations, Christie (2020).

According to the British Chambers of Commerce prevision (2020), the Britsh economic growth is anticipated to drop soundly in 2020 to reach 0.8% compared to 1.4% in 2019, witch the lowest full-year growth outturn since 1992. Further, it is expected that the UK export growth in 2020 will be lowest since 2009 due to the effect of COVID-19 and vulnerability on future trading arrangements. The export growth forecast to revise downward to 0.1% in 2020 (compared to 1.1% in the stable case) and 0.9% in 2021 (compared to 1.4%). By contrast, Public expenditure growth increased from 0.3% to reach 3.6% in 2020 (compared to 3%)

Christie (2020), suggests that the progression of Brexit requires monitoring and improvement during the coronavirus crisis, which is a situation that cannot be counted on. Both the UK and the EU-27 should give absolute priority to their economies' policies.

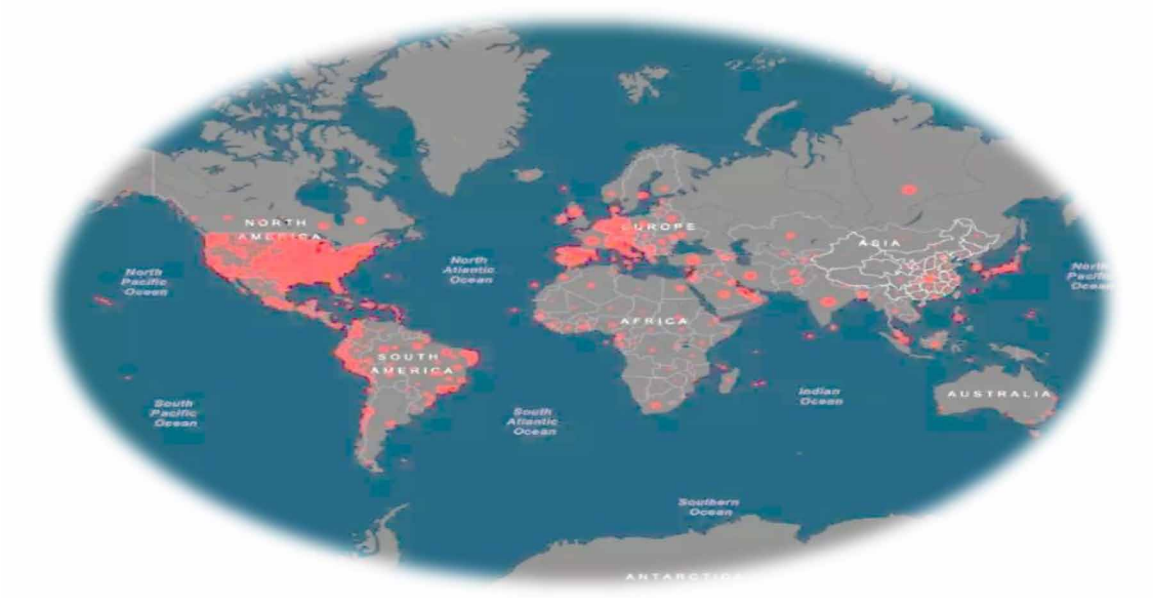
THE EFFECT OF GLOBALIZATION ON THE COVID-19 SPREAD

Globalization reflects the process by which different countries and societies become more narrowly interacted, and concurrent with rising worldwide globalization, Firuze, and Noruzi (2011). Another definition of globalization, announced by OECD is the complexity of the connection between the economies caused by the worldwide production networks, distribution of supply chains that have raised foreign direct investment flows, and international trade, and have deepened their interdependent (2010).

Despite globalization' definition could be clear but its measurement is a complex question from two points of view: The wide range of globalization indicators attempts to reflect the complexity of the process - economic, social, political, technological - which requires not only measures of openness of countries but also the international interaction at individual and company level, (Silvia, 2015).

The absence of clear measures is also defined by the changing nature of the globalization. Generally, one of the crises impacts was a dramatic collapse of international trade and foreign direct investment, the two main drivers of globalization. While the recent crisis impacts the health level but it becomes a pandemic due to the propagation of the virus and the free circulation of the peoples

Figure 3. A global view of confirmed coronavirus cases
Source: John Hopkins University,2020

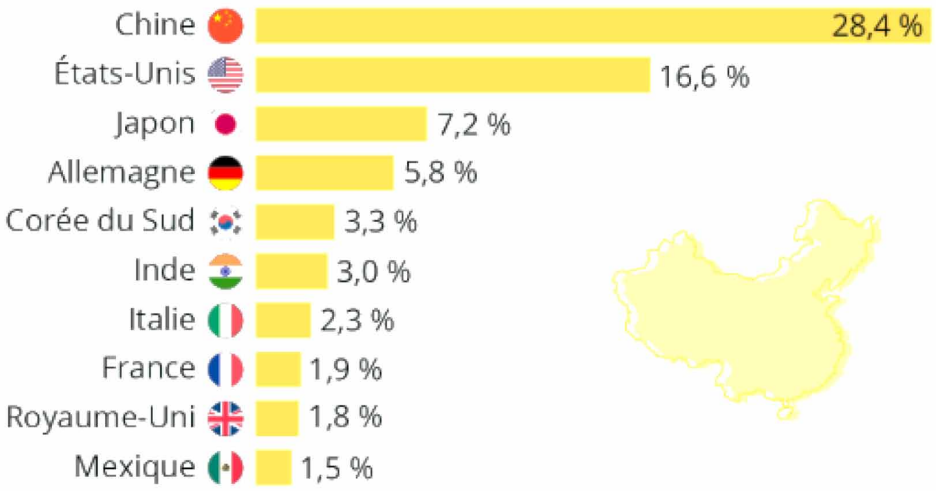


Globalization is typically driven and constrained through several forces: economic processes, technological developments, political inñuences, cultural and value systems, and social and natural environmental factors, (Saker et al., 2004).

Under a wide scale of distinct political, economic, and cultural interest, the globalization' term has rapidly speed and collapse in the past few decades to an unprecedented trend. The massive rise of globalization makes the world more closely integrated and goods (people) can easily change (travel) without financial constraint. This freedom of transition has been beneficial to the economic, political, and social levels but it has also become a channel for the spread of infectious diseases. Therefore, it is fair to affirm that globalization, which allows goods and people to move freely and efficiently from different cities, countries, and regions possible, is the principal catalyst to expand the propagation of COVID-19 around the world, graph3. This is evident since the technological progress, which is one of the main forces for globalization, has played a crucial role for people to travel from one country to another without facing any obstacles. However, if travelers have affected by infectious diseases, such as COVID-19, in-country, they can rapidly transmit it to another country that is not affected, if proper healthcare measures are not in place to prevent the spread to the general public. This terrible scenario describes the whole world since the discovery of the first case by COVID-19 in china, especially in Wuhan.

Since China presents today the largest industrial power in the world, and because of globalization, factory closings in this country are causing supply problems for many businesses around the world. According to Figure 4, China represented 28% of the value-added in the world's manufacturing in 2018, which places it more than 10 percentage points ahead of the United States. Even combined, the added value of the manufacturing sector of the four largest European industrial powers - Germany, Italy, France, and the United Kingdom (11.8%) - does not reach half that of the Chinese industrial sector.

Figure 4. China as a global industrial superpower (Top 10 countries of global industrial production in 2018)
Source: United Nations Statistics Division



Further, it controls 90% of the world's supply of minerals such as lithium, uranium, cesium, and cobalt, essential for manufacturing technological and military products. It represents also 60% of the world's production of paracetamol. But also 90% of penicillin production and 50% of ibuprofen. It's a shocking fact for European manufactures, Ben Ahmed (2020). Given that China has become the main supplier of many commercial firms in the world, since 2010, the slowdown of its firms has impacted several countries, according to the degree of their dependence on Chinese suppliers, and seriously disrupting world trade. The United Nations Conference on Trade and Development (CNUCED) estimates, in April, that this slowdown will drop exports by $ 50 billion in global value chains.

This helps us to explain, through globalization, why the disease in China affects the world to a much larger extent. The effect of globalization on the disease speed can be seen not only in this crisis, but also in the financial crisis of 2008, and the internet bubble crisis.

A confirmed case in china caused today, through globalization, more than 6.7 Million confirmed cases worldwide. This high spread limited the effectiveness of government measures, such as national lockdowns and stringent mobility of personnel, which will impede the production of goods and trade activities.

In an unprecedented action, Europe prohibited travelers from outside the area border for 30 days and the American government has prohibited travelers from European airports from entering the United-state. In addition to its cancellation of Holidays and business trips. Travel firms have been sharply damaged, with these restrictive measures.

In the United States, where the pandemic has a dramatic impact, the government response may fall far short. Since china presents its essential country of supply chains, the restrictions, and closures measures are causing shortages of essential drugs and medical equipment.

As a result, most economies around the worth will be economically affected and undergo a critical situation.

Although globalization processes bring huge risks but do not prevent its huge benefits (Bloom2020). It is simply because there are both sides of interest in the area of globalization some are beneficed and some not, i.e. The extension lobby shows that globalization offers more opportunities than risks on a global scale and that increased competition is good for overall well-being, (Firuze, and Noruzi, 2011)

THE REPERCUSSION OF COVID-19 ON THE GLOBALIZATION

Over the past few decades, countries have opened, supply chains have become global, middle classes have appeared, and new relationships have been made. Now, the coronavirus outbreak could put an end of this first phase of globalization; the increasing restriction on the free movement of personnel, jobs, goods, information, and money, has produced extraordinary political pressures. This health crisis has tightened immigration rules, created new barriers to trade and investment, shortages supplies, a technological cutting, and return countries to their policies.

The coronavirus pandemic is certainly a serious blow to the international system. It will change the rules of globalization typically at two main levels, none of which stands up to scrutiny. Certainly, while the pandemic will modify the mechanics of globalization, it will probably not lead to globalization's end.

First; review the benefits of globalization, become more aware of its risks, and anticipate a radical change in the behavior of firms and people: It seems obvious that things will have to change, because the countries, firms, and the people have to undergo important risks they act thus with care and frugality. indeed, the slow international response, and absence of consensus agreements between neighboring countries, even with repeated warnings by World Trade Organization, implies that the role of agencies will need to be re-analyzed and each country must be reacted by its self. The misrepresentation of each country within the European Union raised the matter of on the usefulness of the European Center for Disease Prevention and Control (ECDC, Stockholm). It seems unfortunate that this agency missed transmitting the correct message and missed to satisfy the needed actions to support the European countries, Mas-Coma et al (2020). Unexpectedly, the USA experienced the same errors as the European countries, including a delay in creating tests, and the shortage of equipment including lack of necessary personal protective. The previous Director-General of the World Trade Organization, Pascal Lamy states that the world is not moving towards protectionism but it open cautiously

Second, the disruption and blockages of many value chain and returns to other sources of supply: Under the Ricardian vision, globalization has created a fragmentation of value chains pushed to the extreme of international trade. But the present crisis almost brought an end to this fragmentation and thus slowed down globalization. Indeed, the pandemic COVID-19 demonstrated heavy dependence on the developed countries and China's electric and pharmaceutics products. The health crisis has acted as an indicator of this dependence and China will probably no longer be in this position after this crisis.

The impacts of blockages are visible in many countries. Since the value chain in many countries has been stopped, the world has experienced an impressive drop in pollution, especially marked in the European and Indian skies. Graph 4 clearly shows this sharp drop.

The value chain's disruption and lockdowns will bring firms and people to search for alternative suppliers at home, even if they were more expensive. Likewise, individuals can contract with national suppliers, if they have found them, to avoid these perceived risks.

Europe, the United States, and others will thus seek to increase their resilience and develop their autonomy through mainly domestic value chains protected by new binding standards, which constitute the

horizon of regained sovereignty and claimed. This should ultimately translate more into multi-location than de-globalization.

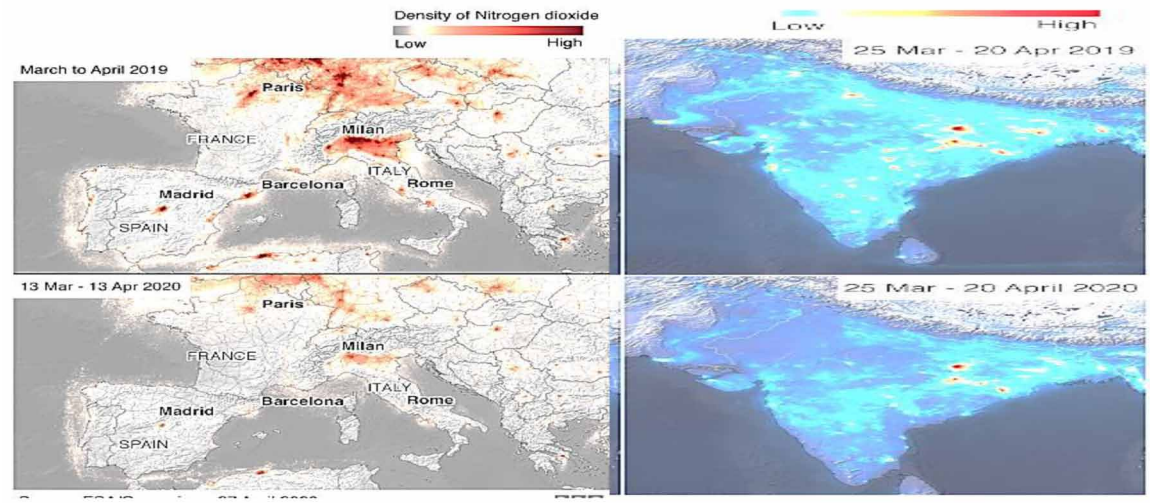
COVID-19 is by far the biggest challenge policymakers in emerging economies have had to deal with in recent history, especially the countries' external funding area. (Herrero and Ribakova, 2020), emphasized that the COVID-19 has brought to light several problems that had been previously forgotten especially the high dependence of emerging economies on external financing, which poses a liquidity problem major. Indeed, the sudden increase in uncertainty has pushed investors to orient towards safe assets and to the dollar. The COVID-19 shock has also highly decreased emerging markets' access to currencies, exports, tourism income, and even remittances. This terrible circumstance pushes the government to exploit the various options to confront liquidity problems such as the monetary policy mechanism, capital controls, foreign exchange reserves, central bank swap, but not all these options are effective to most countries of the region.

Central banks' reactions to the pandemic have been much less strict in the emerging world than in the west, as their currencies have plunged during the crisis witch rise the cost of dollar liabilities. Capital controls are temporary and costly. In contrast, The US Federal Reserve has responded rapidly by the swap option, Herrero and Ribakova (2020).

The several xenophobic attacks measures, the travel restrictions, and assertions between governments in multiple countries are all caused by the coronavirus. According to the level of human and economic harm that this virus spreads around the world, coronavirus may one day be examined as a significantly turned curve for the global scale of the economy.

The globalization and climate modify are suggest the new scenarios in which new diseased agents have more probability to travel which can worsen the spread of infectious agents, and could lead to worse pandemics than the present one (Perlman, 2020). The major issues possessed, however, have we learned the lessons of this crisis? Will we learn to spot, control, and regulate the risks that seem to be an integral part of globalization?

Figure 5. Effects of value chain shutdown on European and Indian skies



CONCLUSION

With the worst recession and financial collapse, the Covid-19 global pandemic well becomes the most defining economic and social event in decades.

Legislators in many countries have supported extensive containment policies; Over five billion people are confined, more than half the world's population. After China, which has gradually lifted containment since March 25, many countries have taken prudent measures to confine their entire population, especially the European area and the United State. In Spain for example, the most affected country, 46 million people could only leave their homes for essential activities: going to work or to the pharmacy and shopping for food.

The United State also adopted an extended social distancing policy, which can be contained until the end of July. Of course, this social distancing damned the consequences of social concentration on the economy, but it did not prevent the spread of the coronavirus. The worst recession that followed, which many countries experienced, was an implication of challenge trade-off that policymakers had to choose whether to save the economy before saving the people or to save the people before saving the economy; many countries prefer the latter.

The benefit side of this circumstance is the opportunity that has given the crisis to many governments to make enduring reforms in the public health sector. Countries like the UK and Spain restructured their public health care sector and revised other deficiencies in the public sector such as transportation systems and illness detection technics in public hospitals. Some governments also used the crisis as an opportunity to create medical equipment that was imported before the crisis and to support the financial system with the stimulus economic package.

From a globalization point of view, the coronavirus outbreak may be remembered as a landmark moment in country-oriented politics. Over the past few decades, countries have opened, supply chains have become global, middle classes have appeared, and new relationships have been made. Now, the coronavirus outbreak could put an end of this first phase of globalization; the increasing restriction on the free movement of personnel, jobs, goods, information, and money, has produced extraordinary political pressures. This health crisis has tightened immigration rules, created new barriers to trade and investment, shortages supplies, technological cutting, and return countries to their policies.

The coronavirus epidemic is dragging the global economy into a supply and demand shock of unprecedented magnitude. But, beyond the cyclical effect on the growth of 2020, the coronavirus is very perspectives that it adds uncertainty to uncertainty and that it appears to indicative breaks even deeper than you could imagine

The globalization and climate modify are suggest the new scenarios in which new diseased agents have more probability to travel which can worsen the spread of infectious agents, and could lead to worse pandemics than the present one.

An important message to the public is needed to help everyone understand what is inevitably involved and that large research results predict other epidemics or pandemics may appear in the future.

The coronavirus pandemic is certainly a serious blow to the international system. It will change the rules of globalization typically at two main levels, none of which stands up to scrutiny. Certainly, while the pandemic will modify the mechanics of globalization, it will probably not lead to globalization's end. In the coming years, the coronavirus disease can be remembered as a decisive period on the road toward the end of the massive increase of globalization. The strict immigration rules, new barriers to

trade and investment, a shortening of supply chains, a massive technological development emphasizes a new move towards a country-oriented policy.

Finally, we should note that the rapid spread of Coronavirus would require more relief measures and resilient leadership in healthcare, business, government, and wider society. The spread of this crisis requires radical reunification so that the economy is rebalanced and re-energized after this pandemic. Further, the broad socio-economic development plan for health, economy, and finance must be concretely carried out to ensure economic resilience in the face of the crisis. Understanding the lessons of this pandemic and including those lessons at all levels should conduct us towards supporting our preparedness in all sectors to decrease risks from the probable next pandemic.

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Chapter 32
Market Structure of the Banking Sector and the Turkish Banking Sector

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Abstract

The main function of banking is to contribute to economic growth by providing sectors outside of the finance section with financing that they need and fulfilling an intermediary role between lenders and borrowers. This intermediary function increases the importance of the banking sector compared to other sectors of the economy. Market structures are very significant in terms of firms' market entry and exit and stay on the market. Markets are subject to four different distinction as perfect competition, monopoly, oligopoly, and monopolistic competition markets. The objective in the market is to ensure efficiency in production and sales by pulling down the costs of production through competition. The factors determining the market structure are the numbers of firms in the sector, the degree of restriction on the entry and exit of firms in the industry, the number of those requesting products and homogeneity degree of product produced The banking sector, unlike other sectors, has unique characteristics. Competition policies which are valid in other sectors are not appropriate for the banking industry. Market openness for instability and market failures change the structure of competition. Asymmetric information, product replacement costs and externalities create barriers to entry which, allows banks to be in a dominant position in their markets. This study examines the main indicators showing concentration, effectiveness, depth, and intermediation functions of Turkish banking sector and investigates in which market structure the sector operates. In this regard, it has made policy recommendations over the results obtained.

INTRODUCTION

With the financial liberalization policies which started in the developed countries and have expanded to include developing countries (DC) since 1980s, controls and restrictions on the domestic financial market first and then on capital movements were removed. When the removal of all obstacles to capital

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movements was combined with the developments emerged in communication technology, financial flows that could easily move from one country to another in the international financial markets have increased rapidly and reached large levels. During this process, international capital movements have gradually moved away from their traditional functions and reached to a different position. In addition to its rapidly growing volume, capital movements which have acquired a relatively short-term and speculative nature and shifted from official channels to private markets have mostly affected the economies of the DC with its mentioned characteristic.

The greatest opportunity provided by globalization is to increase the world's life standards as a result of the fact that more and more countries which can use their capital flows more efficiently have increased their commercial earnings. The biggest danger is that globalization may be the new source of financial instability and may intensify financial distortions when it occurs.

The main purpose of economic systems is to ensure that welfare reaches to the maximum level. For this reason, it is necessary to ensure the optimum resource composition in production and optimum distribution of goods and services in consumption. Production should be carried out at the lowest cost by using the resources efficiently, and the end users should be provided with the lowest price goods and services. Thus, efficiency in both production and consumption shall be ensured. In the economic theory, the balance of firms arises depending on the structural features of the market where they operate. Depending on the number of buyers and sellers, the level of competition, market share and concentration point determine the market structure.

As the market structure is linked to competitiveness and social welfare, it draws attention in the economics literature and industrial economics literature. In the literature, differences in the effectiveness levels of firms and regulatory or corporate entry barriers come to the fore as the two potential determinants of the market structure. The determinants of the market structure in the banking industry are important for two reasons. First of all, the market structure affects not only the competitiveness of the banking system, but also the ability of firms to achieve funding, and thus their investments. The second reason is to evaluate the possible effects of these regulations on the market structure as the banking system is regulated intensely (Gonzalez, 2009, p. 736).

The banking sector plays a key role in the financial sector with the effect of acting as an intermediary that channels the resources it collects to the investments. With the effect of financial liberalization in 1980s, Turkish banking sector has reached a level that cannot be ignored in terms of both its financial and institutional structure.

LITERATURE REVIEW

Some of the outstanding studies in the literature review on the subject are briefly mentioned below.

Mishkin (2009) studied how globalization contributes to financial development and economic growth by strengthening the institutional structure in an economy. He has determined that in a country implementing a financial liberalization policy, productive investment projects can be supported by lower-cost loans; and with the increase in free foreign trade, the performance and quality of the real sector can be increased. He stated that financial development shall accelerate in a market where the real sector is getting stronger, and institutions shall have to implement reforms by keeping up with this development movement.

Beck, Kunt and Levine (2003) analyzed the concentration in the banking sector and found out that while the three largest banks in the US hold only 19% of the sector, this rate is higher in Finland, Norway, New Zealand and South Africa.

In their study, Prasad and Ghosh (2005) tested the idea that competition in the Indian banking sector has been on the rise after the financial sector reforms in 1992 by using annual commercial bank data from 1996-2004; and they concluded that the Indian banking sector operates within the monopolistic competition market structure.

Gelos and Roldos (2002) analyzed the banking system of four Latin American countries and four European countries including Turkey. Applying P-Z model for the period between 1994 and 2000, they demonstrated that the value of H statistics calculated for countries other than Argentina and Hungary varies between zero and one, and that banking systems show a monopolistic competition structure. According to the estimated H statistic value, they stated that Turkish banking sector showed a monopolistic competition market structure in the period of 1994-2000.

Arıcan et al. (2011) stated that the market structure in Turkish banking sector was weak oligopolistic structure in the period of 2004-2009, but they also claimed that the limits of a strong oligopolistic market structure were pushed during this period.

In her thesis study, Gundogdu (2011) measured the competitive structure of the banking sector in Turkey be"tween 2003 and 2009 through Panzar-Rosse model, and revealed that banks worked in monopolistic competition market apart from 2006. It is observed that the market showed a monopolistic structure in 2006. In addition, the study emphasized that the financial restructuring programs implemented after 2000 had positive reflections on the competitive structure of the sector.

Günalp and Çelik (2004) analyzed the relationship between market structure and performance in Turkish banking sector. The results obtained for the period between 1990 and 2000 supported the efficient structure hypothesis. That is to say, low costs are considered the reason for the high profitability of the banks. In other words, the most efficient banks receive higher profits and market shares; and as a result of that, there is an increase in market concentration. It is more appropriate for the regulatory authorities to focus on regulations that will increase bank effectiveness, rather than measures that will reduce market concentration.

In their study on the relationship between efficiency and competition in Turkish banking sector which covers the period of 2002-2007, Çelik and Kaplan (2007) stated that while the efficiency in Turkish banking sector decreased until 2005, the interest of especially foreign banks increased, and then it increased again in the period of 2005-2006 when the economy rallied; that the competition in Turkish banking sector, which showed a monopolistic structure between 2002 and 2004, started to increase in 2005 compared to the previous years, and in 2006, a competitive structure was dominant in the sector; that the market turned into a monopolistic structure in the sector in 2007; and concluded that the result that the increase in the efficiency of the sector increased the competition supports the efficient structure hypothesis.

In their study related to the market structure of Turkish banking sector in the period of 1990-2012, Öksüzler and Bayır (2014) stated that Turkish banking sector had a weak oligopolistic structure in the beginning of 1990's, monopolistic competition through the end of 1990's, and first a weak oligopolistic structure and then a strong oligopolistic structure since the beginning of 2000's; they argued that the transformation in 2000's was due to bank mergers and foreign bank inflows to the sector.

Uzgören and Tarhan (2012) used concentration indexes in their study carried out according to 2008 figures by excluding public banks, and they concluded that Turkish banking sector has monopolistic competition market characteristics.

In their study on the market structure of Turkish banking sector in the period of 2000-2005, Yetim and Gülhan (2005) stated that the market structure in the related period was weak oligopolistic structure.

MARKET AS A TERM

Markets are divided into four different types of competition as being perfect competition, monopoly, oligopoly and monopolistic competition markets (Lipsey & Harbury, 2004, pp. 154). Perfect competition and monopoly market structures, which are two extreme market types, are rarely seen in today's world markets. Firms are usually located in one of two different market structures. The first of these is the monopolistic competition, in which a large number of firms that do not have decisive power over the price operate, and the second is the oligopoly market, in which some companies that have decisive power over the price operate (Gwartney et al., 1992, pp. 246-247). Market structures formed between perfect competition and monopoly markets are very important for firms to enter and exit the market and to stay in the market. In addition to these, price and output strategies, and therefore profit rates are also highly dependent on the market type (Hirschey &Pappas, 1996, p. 596).

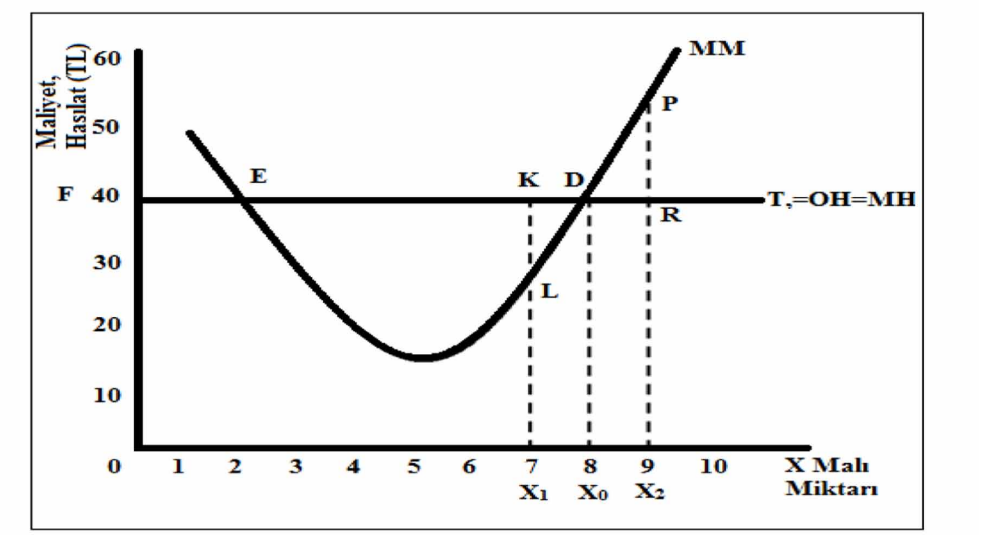
The term of market structure basically refers to a collection of information that helps making decisions related to the industry. Many variables play a role in deciding what the structure of the market or industry is. The industry's own specific conditions such as the industry's place in the total economy on one hand and the concentration in the industry on the other, conditions of entering and exiting the market, product differentiation, and technological development are some of the determining factors in determining the market structure. The concept of structure explains what size the firms operate in the market. Therefore, the number of firms in the market as well as the shares of firms in the market is one of the most frequently used indicators as being an indicator of whether the industry is competitive or not. However, although the number of firms is important in determining the market structure, it is not sufficient alone because even though there are many firms in the market, one or a few firms can dominate the market. Therefore, such a way of structuring could prevent real competitive results from being achieved (Coşkun et al., 2012, p. 52).

In order to evaluate market competition strategies, first of all, the questions that "what is a firm?" and "how does it behave in different market conditions?" should be answered. Many definitions of the concept of firm have been made in the literature of economics. However, each of these definitions is complementary. To give a general definition, firms are organizations that come together to produce goods and services and have the aim of gaining profit (Tirole, 1988, p. 15).

The aim of a firm is to maximize the profit. Conditions for maximizing the profit are not the same in all market types. However, there are some principles that apply to all market types.

The principle of profit maximization includes not only the profit but also the loss. The purpose of a firm is to make profit, but there may be times when it has to work at a loss. Conditions for profit maximization and loss minimization are the same (Türkay, 1994, p. 119). We can observe this situation in Figure 1. The amount of X product is given on the horizontal axis, and its cost and revenue data is given on the vertical axis. Suppose that the firm sells the products at the same price. Therefore, the company's average revenue curve is a line which is parallel to the horizontal axis. Since all units of the product are sold

Figure 1. Maximization of the Profit
Source: Türkay, Orhan (1994). İktisat Teorisine Giriş Mikroiktisat, Ankara: Adım Yayıncılık, p. 119.



at the same price, the average revenue, i.e. the price, also means marginal revenue. The U-shaped MM curve is the company's marginal cost curve. It shows the cost of increasing the production by one unit.

The first condition for the maximum profit of the firm is that the marginal cost must be equal to the marginal revenue: MM = MH. The production volume at which this equation is achieved is the balanced production volume. On the chart, the production volume at which marginal cost and marginal revenue become equal is OX0. At this production level, marginal cost and marginal revenue are DX0. For example, the company that produces at X1 level before X0 gets KX1 TL. Marginal revenue will be KX1. The cost of producing the same unit of product is LX1 lira. That is to say, marginal cost is less than marginal revenue. The company has an interest in producing and selling this unit. Production between X1 and X0 provides the company with an additional profit. If the production is kept at the level of X1 and X2 instead of X0, the company will be deprived of profit as much as the area of the KLD triangle. If the production is increased up to X2 level, the company will lose as much as the area of the DPR triangle. Reducing the production from X2 to X0 will save the company from such a loss. X0 production volume is the balanced production volume.

Oligopoly Market Structure

Oligopoly market can be defined as the market structure where there is a large number of buyers while there are a few sellers (Griffiths & Wall, 2004, p. 99). In this market, most of or all of the supply amount is provided by a few companies. Due to entry barriers, few firms available in the market make high profits in the long run (Pindyck & Rubinfeld, 2009, p. 449). Banking, automobile, steel, aluminum and petrochemical industries which are based on high technology and require intensive capital have oligopolistic structure. In the oligopoly market structure, a small number of companies producing homogeneous or differentiated goods dominate the market. Sectors of energy, medicine, detergent, transportation, me-

dia and banking where few companies can compete due to the large investment and capital needs have oligopoly market structure.

Every new company that wants to enter into this market has to compete with the existing companies. The size of the market is clear and it is already shared among the existing companies. Firms that want to maintain and increase their market shares shall prefer oligopolistic behavior. Therefore, the market structure affects the behavior, price, profit and efficiency of firms (Griffiths & Wall, 2004, pp. 99-102). Three main factors are effective in the formation of an oligopolistic structure in an industry. These are economies of scale, mergers and tight entry barriers (Ünsal, 2001, pp. 403-438).

In the oligopoly market, if new firms enter into the market by being affected by high profit, excessive profit cannot be obtained due to increased competition in the long run. Oligopolistic firms with high market shares can agree on limiting competition. If some firms decide and agree to limit prices and quantity to prevent new entry into the market, and they share the market and decide not to sell at each other's borders, they form oligopolistic power (Sloman, 2003, p. 343). In oligopoly markets, firms compete only on price by producing similar products or compete on price, quality and marketing by producing a differentiated product. Due to the entry barriers, there are few companies and these companies have a high market share. Firms are interdependent and they act jointly to increase their profitability. In addition, a few firms can create cartels and increase their profitability. Cartel is a group of firms that act together to limit output, to increase price, and to increase profit (Parkin, 2012, pp. 342-343). Firms creating cartels aim to increase their profits by acting as a single company.

In oligopoly markets, the production volume corresponding to the minimum effective scale size that the firms provide their long-term balances is high because the firms in the oligopolistic markets make large-scale production in order to keep the unit costs low. If the total market demand is at a level which is enough to support only a few companies of optimum size, competition will only ensure the survival of these few companies (Spencer & Amos, 1993, p. 247). The presence of a small number of companies in the market enables the negotiated sales price.

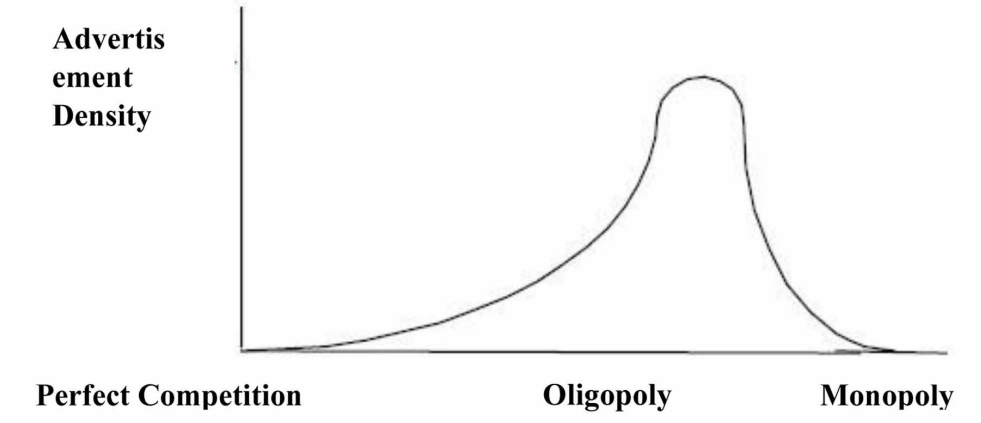
Decisions of the companies operating in the oligopoly markets regarding production amount, price or advertisement closely concern the competitor companies. These firms are not expected to act independently as in perfect competition or monopolistic markets; they have to evaluate reactions of their competitors in their price and sales policies.

In oligopoly markets, firms often find it much safer to avoid competing in price. If these companies do not have an increase in their market shares, they prefer more price-oriented activities such as advertising and customer services to maintain their existing shares. Price cutting policy only emerges under pressure such as demand reduction (Spencer & Amos, 1993 p. 248). With the aim of increasing the market power of a firm, advertisement causes consumer preferences to change by convincing people to purchase that firm's product. A newly established company has to increase advertising expense in order to break the dependence on a certain brand, to promote its own goods and to maintain its market share. Therefore, advertising costs of new entrants are higher compared to companies with a certain position in the industry. Firms in the industry will have a certain absolute cost advantage compared to new entrants because it is highly difficult to influence the decisions of consumers who are dependent on and addicted to a particular brand (Comanor & Wilson, 1967, pp. 425-426). Advertisement also causes obstacles in the entry to the market. Consumers tend to demand the products of companies operating in the market. Thus, it causes the new entrants to spend more on advertisement for their products or to make more discount in their products. In both cases, the new entrant of the market faces cost pressure (Fehr & Stevik, 1988, pp. 113-114).

It has been suggested that the best result to be achieved for the good of the company through advertisements shall be realized on large scales. Therefore, an effective advertising campaign must reach a certain level before reaching maximum effectiveness. A single message may not affect the behavior of the average consumer. For this reason, advertisements may need to be repeated more often. Frequent repetition of advertisements is again a cost factor, so, only large-scale companies can do this (Arndt & Simon, 1983, p. 234).

Advertising and other sales increasing activities in oligopoly markets are much more important than price competition. As can be seen in Figure 2 below, in the perfect competition market where the concentration rate is low and in the monopolistic markets where the concentration rate is high, the motive of advertising is quite low. In oligopoly markets where the concentration rate is high, it is seen that the motive of advertising has reached a maximum point.

Figure 2. Market Concentration (Concentration Rate)
Source: Ferguson, Paul R. and Glenys J. Ferguson (1994). Industrial Economics: Issues and Perspective, New York: New York University Press, p.68.

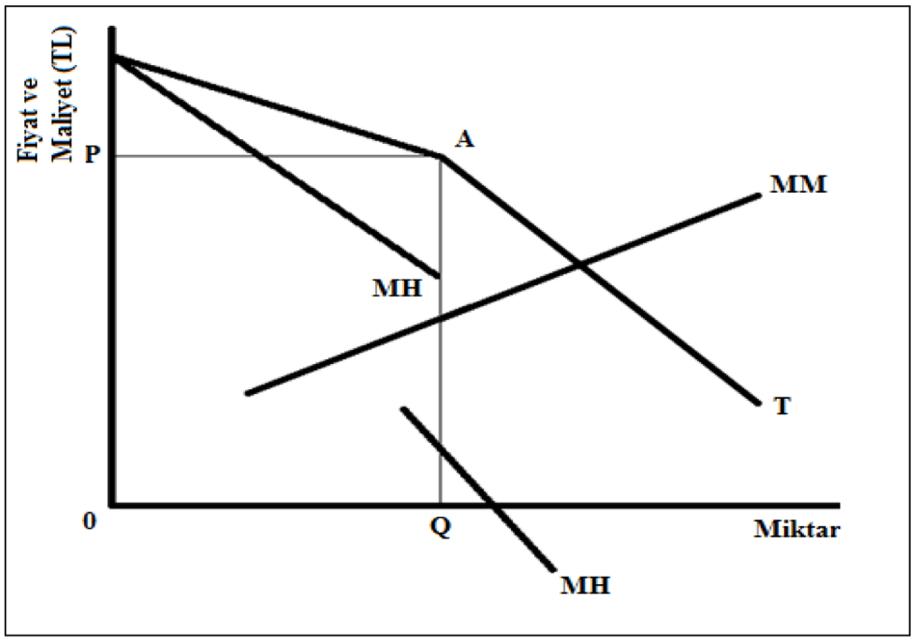


Various models have been developed in order to explain the oligopoly markets. There is interdependence between firms in the oligopoly market structure. Interdependence is the reaction of one firm to the decisions of another firm or other firms. The kinked demand curve model is a model that aims to explain the stickiness of price in oligopoly. In this model, if the oligopoly firm decreases its price, competitors shall also decrease their prices; if it increases the price, competitors shall not change their prices (Sweezy, 1939, pp. 568-569).

In the diagram, the demand curve that the company faces is (T). Each firm faces (T) demand curve. It is assumed that the price of the produced goods is (P), and Q amount of product is produced and sold at this price. The reason why the firm demand curve (T) is more flexible at the left of point A, in other words making kink, is that when the firm drops its price under P level, other firms that produce close substitution products will also follow it and the decrease in the price shall not significantly increase the amount of demand. The firm decreasing its price shall not be able to get a price advantage against its competitors. If the firm determines its price above the P level, competitors will not follow it and the demand will show a great decrease due to the increase in the price. The company that increases its price

will have the highest price and its market share will decrease. The kink in the demand curve creates a broken fracture in the marginal revenue curve (MH). In order to maximize its profit, the firm produces the output in which marginal cost equals to marginal revenue. This amount is where Q marginal cost (MM) curve exceeds the AB gap in the marginal revenue curve. Profit is maximized by producing Q amount. If the marginal cost curve (MM) passes between A and B, the firm does not change its price and output. In case it passes outside AB range, the firm changes its price and output. Therefore, the kinked demand curve model is insensitive to changes in price and quantity.

Figure 3. Kinked Demand Curve in the Oligopoly Market
Source: Begg, David, Stanley Fischer and Rudiger Dornbusch 2008). Economics, London: McGraw-Hill, p. 172.



GLOBALIZATION AND BANKING SECTOR

The integration process of world markets which previously started with the development of economic relations has spread to other fields in the following period. In fact, globalization is an affinity process that has various dimensions such as economic, technological, political, cultural, and ecological etc. The globalization movement that tries to create a common system and value by eliminating national and regional differences in political, economic and social values emerges as a phenomenon that has left its mark on the present day (Afşar, 2011, pp. 145-146).

Economic dimension is one of the most important components of globalization. Economic globalization means intensification of economic relations and the convergence of countries as a result of increased fluidity of goods, capital and labor among countries. In this process, developments in telecommunication and transportation technology function as locomotives. In this context, with the convergence of national

economies, capital, technology and information have acquired an important feature especially in terms of mobility (Afşar, 2004, p.63).

The process expressed by the concept of Globalization in the economic sense has two components: the first one is about production and the other is about capital accumulation process. In the globalization of capital, the main thing is the liberalization of capital circulation, the increase in its volume, its acceleration, its spread and the introduction of new investment instruments. This is the main driving force of globalization; and over the past 30 years, financial markets have expanded their horizons to an unprecedented extent. With the rapid development and transformation emerged in the globalization process, it is possible to say that capital is freed from space. Thus, there is not any obstacles to limit the free movement of money and knowledge (Bauman, 1998, p.70-90).

Although there are positive aspects of removing the obstacles that limit the movement of capital, there are often negative consequences mentioned. Development occurred in financial techniques and instruments through the inventions and innovations experienced in information technology with the help of globalization and transparency process in the financial markets of the world in 1990s added different dimensions to the crises experienced. Especially the impact of innovations in computer and information technology on financial instruments and financial services and the extraordinary increase in new financial instruments facilitated the acceleration of capital flows but also played an accelerating role in spreading and perceiving crises. The spread of the crisis emerged in one country to other countries is considered a result of globalization (Öztürk & Gövdere, 2010, p.378).

The expanding new outlook of the world banking sector is shaped by a strong wave of mergers and acquisitions. The regulatory changes introduced with the ongoing financial innovation by the Common Market program in Europe dating back to 1992, the European Union banking directives introduced since the 1990s, and especially the monetary union launched in 1999 shall change the form of the banking sector. In the long term, the main purpose of financial integration within the framework of the European Union is to promote competition in banking. The general belief is that competition shall eliminate many restrictive practices, reduce interest rate differences between lending and receiving, thereby improve the performance of the banking sector (Koskela & Stenbacka, 2000).

BANKING SECTOR AND MARKET STRUCTURE

Banks serve two interrelated functions. The first is to protect their savings safely and to accept the deposits of savers who want to earn an income from it. Another is to lend money to those who can prove that they have the financial power to repay their debt over time. Savers and those who want to borrow can be firms, not just individuals. However, just as an individual can be both a producer and a consumer, s/he can be both a saver and a borrower. Banks shall apply a higher interest rate to borrowers than they pay to savings owners. The difference is the cost of financial services provided by the bank (Watts, 1992, p. 50). Just like other companies, the aim of banks is profit maximization based on increasing operating income and decreasing operating expenses. Whether it is an ordinary investment or a banking transaction, what matters is how much money is earned as a result of the activity (Tunay, 2010, pp. 4-5). Banks are of great importance in terms of transferring the monetary policies implemented in order to affect the level of economic activity to the real sector. Banks, which are also a business, often work for the benefit of shareholders and therefore want to maximize their return on their assets O'hara, 1983, p. 127).

The main function of banking in the economy is to contribute to economic growth by providing the financing they need to the sectors other than the financial sector by intermediating between lenders and borrowers in the economy (Cetorelli, 2004, p. 544). This mediation function increases the importance of banking sector compared to other sectors in the economy.

The target in the markets is to reduce production costs through competition and to ensure efficiency in production and sales. Factors that determine the market structure are the number of firms in that sector, the degree of restrictions on firms' entry and exit of the industry, the number of those who demand the product and the degree of homogeneity of the product produced (Artun, 1983, p. 57). The importance of the efficiency of the banking system shows itself in providing quality services at competitive prices to its customers. Thus, the existing funds shall be allocated in areas where they will make themselves most effective at competitive prices. Therefore, another reason for bank regulations is the creation of a regulatory framework that promotes efficiency and competition. If efficiency is defined as achieving the highest production with a resource data set and competition is defined as the most effective way to achieve this efficiency, it reveals that the market structure of banking sector is an important factor that determines the efficiency and effectiveness in the whole economy.

The banking sector has a structure where market failures exist. The number of banks is limited due to the presence of dominant companies in the market and the presence of entry barriers. It is not possible for new companies to enter the market with high profitability conditions due to entry barriers.

The banking sector has its own unique features which are different from other sectors. Competition policies valid in other sectors are not suitable for the banking industry. The market's openness to instability and market failures change the nature of the competition. Asymmetric information, product replacement costs and externalities create entry barriers; and it enables banks to dominate their markets (Carletti, 2007, p. 17).

It is important to determine what market structure the banking sector has. Measurable features such as the number of banks in the market and their level of control also determine the level of concentration in the market. Economies of scale gain importance in determining the market structure of the banking sector. Banks can create products with both the active and passive parts of their balance sheets. In this context, the current market structure in the banking system is natural oligopoly (Bikker, 2004, p. 4). The fact that large banks are decisive in the functioning of the system and other small banks follow them indicates the presence of oligopolistic structure in the banking market where there is homogeneous goods. There are at least two firms in the oligopoly market and these firms have the power to affect the market price.

In oligopolistic markets, in addition to being homogeneous, products can be differentiated and vary by the market structure. In the banking sector which has an oligopolistic market structure, great differences can be observed between banks in terms of the number of personnel and branches, the structure of assets and deposits.

The goods produced by the firms in oligopoly markets are not perfect substitutes. Firms produce differentiated goods to a certain level. The more different the products they offer differ from each other, the greater the advantage they will get. Instead of price competition, product differentiation and advertising policy are the most applied methods to gain advantage in the competition.

Competitors act by analyzing each other's behaviors and determine their activities in this way. For example, unlike perfect competition markets where firms cannot influence market price and there are passive price takers, firms operating in the oligopoly market structure avoid price policies that will negatively affect all market participants. It is a kind of "tacit agreement" (Kraft, 2006, p. 3).

There are difficulties to enter the market in oligopoly market structure. The most important entry barrier is the high capital requirement as in the banking sector. Additionally, regulations such as government licenses and patents also increase entry challenges.

Issues such as acting as a buffer against bank losses/deficits in regulations to be introduced by banking authorities for minimum capital requirements of banks, protecting creditors in case of bankruptcy, and preventing excessive risk taking are among the leading objectives (Tarullo, 2008, p.16).

In order to create competition in the market, it is necessary for each of the buyers and sellers to have information about the market. The presence of missing information in the market contributes to the formation of oligopolies. Advertising policy also increases the availability of missing information.

The degree of concentration is one of the most important indicators used in determining the market structure. Depending on the values of the various indices used as measures of concentration, evaluations are made on the degree of concentration and market structure. In the carried out evaluations, it is observed that as the degree of concentration increases, a classification is made from the perfect competition market to the monopoly market.

In oligopolistic markets, in addition to being homogeneous, products can be differentiated and vary by the market structure. In the banking sector which has an oligopolistic market structure, great differences can be observed between banks in terms of the number of personnel and branches, the structure of assets and deposits. Since small banks operating in such an environment do not affect the market structure, they can remain under the market-making effect of large banks and follow these policies. Unlike other companies, banks can create products with their assets and liabilities. In parallel with the development in the financial system, the number of products owned (produced) by banks is also increasing rapidly. Increasing competition among banks obliges banks to increase the number of their products while revealing the importance of fund resource and usage structure and fund resource cost (Yakıcı & Çankaya, 2002, p. 33).

Competition and Financial Stability in Banking

The relationship between competition and financial stability in banking is usually addressed within the framework of the discussions about how concentration and competition generally existing in the banking sector affect the financial stability.

According to the view that low level of competition in the banking sector will contribute to financial stability, increasing competition in the banking sector decreases bank values. Combined with the deposit insurance practice provided by the government, bank partners and managers tend to take more risks and increase financial vulnerability (Allen & Gale, 2004, p. 453). However, in a market consisting of small number of large-scale banks, bank profitability will increase as banks will have high market power. While it make banks more resistant to crises, it will also increase bank values. Increasing bank values will prevent bank partners and managers from taking excessive risks and will reduce the possibility of financial crisis. According to the mentioned opinion, since it will be easier and more effective to monitor and control a small number of banks, the possibility of a crisis in the banking sector will also decrease (Beck et al., 2006, p. 1581).

In the literature, there is an opinion defending that low level competition in the banking sector will adversely affect financial stability. According to this opinion, increasing concentration and decreasing competition in the banking sector increases fragility. The market power of a small number of large-scale banks is high and banks increase their loan interest by using this power. Since customers who use loans

at high interest rates are risky customers, the risk of non-payment of loans and thus the possibility of a crisis increases. In addition, while the bankruptcy of small-scale banks does not attract much attention, the state intervenes in large-scale bankruptcies which have high negative externality. The "perception that it is too big for bankruptcy" which is also formed by the effect of this intervention increases the likelihood of financial crisis by causing banks to take more risks and decreasing the depositors' incentive to monitor bank activities (Beck et al., 2006, p. 1581).

Analysis of the structure of financial markets is very important for the phenomenon of competition because structural analysis gives information about potential dangers in competition (Bikker & Spierdijk, 2001, p. 2). Asymmetric information is an important determinant of market structure and competition in the banking sector. The existence of asymmetric information in the banking sector may cause failure in the markets. As a matter of fact, increasing competitive pressure aggravates moral hazard and adverse selection problems in the banking system where information is inevitably shared asymmetrically, and increases the burden of banks to undertake risk. As a result of the increased risk undertaking, the financial structure of banks is adversely affected; and most of the time, banks have so much difficulty in payment that it triggers a systemic crisis (Emek, 2005, pp. 2-7).

Nevertheless, the fact that the financial institutions that carry out their activities in more than one country may affect the financial systems of not only a single country but all the countries in which they operate requires both a local and global solution to the problem.

Considering the role of banks in daily economic activities, large-scale bank failures are expected to have a greater negative impact on the real economy. For example, many firms in the real sector may have trouble in making their daily payments and managing their risks (Stern & Feldman, 2004, p. 46). Moreover, instability occurring in the banking sector along with a large-scale bank failure may lead to a crunch of the credit volume in the economy. Credit crunch will negatively affect production and employment by reducing investment expenditures of firms (especially small-scale companies) that do not have alternative financing channels (Stern & Feldman, 2004, p. 47).

TURKISH BANKING SECTOR

Financial crises have significantly affected the market structure of Turkish banking sector. On the other hand, the measures taken for the crises have enabled the market outlook to improve rapidly. In particular, the healthier market structure caused by the structural transformation experienced due to the restructuring program maintained its stable appearance during the fluctuations that occurred in the following periods. With the impact of the crisis in 2001 and the measures taken, a decrease in the number of banks and consolidation took place. With the rehabilitation of public banks in the period of 2002 and beyond, its disruptive effects on the system and its power in the sector decreased and the share of global capital in the provided stability environment increased (BDDK, 2010, p. 76). Within this framework, while the number of banks decreased from 81 to 52 in the period of 1999-2015, the share of the top 10 banks in total assets increased.

Turkish banking industry is generally evaluated in two categories as being deposit banks and development and investment banks. In its own category, deposit banks were classified as public banks, private banks, banks transferred to the savings deposit insurance fund, and banks with foreign capital. As of 2019, 53 banks have been operating in Turkey. 6 of them are participation banks; 34 of them are deposit banks; and 13 of them are development and investment banks. 3 of the deposit banks are public

banks and 9 of them are private banks. The number of deposit banks with foreign capital is 21. 3 of the development and investment banks are public-owned, 6 of them are private-owned, and 4 of them are foreign-owned banks.

Bank branches fulfill the most important function in the provision of banking services. The number of branches decreased until 2003 due to the impact of the 2000-2001 crises on Turkish Banking Sector; however, it has increased since this year. The total number of branches is 11,374 as of the end of 2019.

As of the end of 2019, 204,626 people are employed in the banking sector; 98 percent of employees work in deposit and participation banks, and 2 percent of them work in development and investment banks. 27 percent of employees are in public deposit banks, 34 percent of them are in private deposit banks, 29 percent of them are in foreign deposit banks, and 10 percent of them are in participation banks.

Turkish banking system has an oligopoly market structure. According to the microeconomics theory, oligopoly markets are "where at least two firms are in production and at least one of the firms are in the production of a significant portion of the industry's total output". In the oligopolistic market, companies sell to a large number of small buyers. On the other hand, the goods produced in oligopoly markets can be homogeneous and differentiated, and may differ according to the characteristic of this market (Çankaya-Öz, 2001: 23). There are big differences between large banks and small banks in terms of personnel, assets, deposits, and number of branches. It can be said that the small banks operating in this environment follow the policies of the big banks because they are not strong enough to directly influence the direction of the banking system. Besides all these differences, it would not be wrong to say that the existence of public banks affected by politics has negatively affected the effectiveness and performance of banks, and therefore the sector's contribution to the economy (Yakıcı & Çankaya, 2002, p. 33).

Concentration and Effectiveness in the Banking Sector

Concentration pointed out by the shares of banks of certain sizes in assets, deposit and loan volume in the sector is one of the important indicators of competition and market share distribution. In the table given below, the share of banks which are among the top five and ten in the sector in terms of asset size, in asset, deposit and loan sizes is given.

Table 1. Concentration in the Banking Sector (%)

	2002	2003	2006	2007	2008	2009	2010	2011	2012	2017	2018
Top 5 Banks											
- T. Asset	58	60	63	62	62	63	63	61	60	56	56
- T. Deposit	61	62	64	64	65	66	66	62	61	60	61
- T. Loans	55	54	58	57	58	55	57	58	56	55	56
Top 10 Banks											
- T. Asset	81	82	86	85	86	87	87	87	87	85	86
- T. Deposit	86	86	90	89	90	91	91	91	91	91	88
- T. Loans	74	75	83	83	84	85	86	87	86	84	86

Source: TBB Banks, 2002 – 2012

Through the depth and effectiveness of the banking sector, it is revealed to what extent and how efficient the sector functions in the economy. There is a positive relationship between economic growth and financial depth. The ratio of deposits and loans to GDP and of loans to deposits are the most important data that measure the depth of the sector.

Table 2. Depth and Mediation Function of the Banking Sector

Years	Deposit/GDP	Loan/GDP	Loan/Deposit
2002	51,6	22,6	44
2003	44,3	21,8	49
2004	45,8	25,8	56
2005	51,5	33,6	65
2006	51,9	37,9	71
2007	41,7	33,4	80
2008	47,8	38,6	81
2009	53,9	39,9	78
2010	55,8	47,6	85
2011	53,5	52,6	98
2012	46	51	103
2013	49	58	110
2014	48	61	117
2015	53	64	119
2016	56	67	119
2017	55	68	119
2018	55	64	115

Source: TBB, BDDK, TCMB.

In the banking sector, the ratio of deposits and loans to GDP and the ratio of deposits turning into loans continues to increase. In particular, the increase in the ratio of deposits turning into loans is remarkable. It is an indication that access to financial services and intermediary function of banks have increased. These rates, which have continued to increase during the post-crisis period, demonstrate that Turkish banking sector is returning to its real functions.

Asset Structure of the Banking Sector

As of the end of 2018, the asset size of the banking sector was 3,867 billion TL (732 billion USD). The ratio of assets to GDP is around 104%.

It is observed that in parallel with the stability in domestic economic activities and the development of other economic indicators, the banking sector has shifted from an asset structure financing the public sector to a placement structure that prefers to finance companies and households. As a matter of fact,

there has been a general tendency of increase in the share of loans in the asset structure of the sector in recent years.

When the development of the basic balance sheet items of the banking sector for the last 10 years is analyzed, the high growth trend of loans, which diverges distinctly from other assets, draws attention.

Table 3. Loan Disbursement Rates by Bank Groups (%)

Years	Public Banks	Private Banks	Foreign Banks	Investment and Development Banks
1989-1997	35,7	53,2	1,8	9,3
1998-2000	27,8	59,8	2,9	9,5
2001-2005	20,7	65,9	4,1	9,3
2006	22	60	15	3
2009	25,8	54,8	16	3,4
2010	27,4	54,6	15	3
2011	26,5	56,9	13,2	3,4
2012	25,3	57	13,9	3,8
2015	30	38	27	5
2016	31,4	36,9	25,4	6,3
2018	35,7	32,4	23	8,9

Source: TBB.

Liability Structure of the Banking Sector

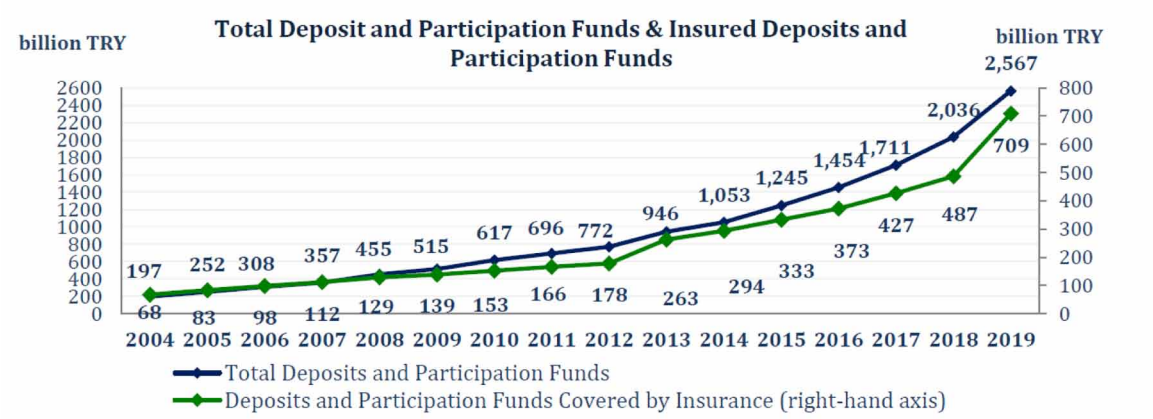
Banks use the funds they collected from the public and various institutions as well as their own funds to provide loans. As of December 2019, 34 deposit banks and 6 participation banks operate in the banking sector, and the total asset size of these banks is 4,491 billion TL. As of the end of 2019, the amount of deposits and participation funds in these credit institutions increased by 26% compared to the previous year and reached 2,567 billion TL, and constituted 57% of the total assets. Amounts covered by insurance have increased by 46% compared to December 2018 and increased to 709 billion TL; and 28% of total deposit and participation funds are covered by insurance.

When the distribution of deposits and participation funds covered by insurance is analyzed in terms of Turkish Lira and foreign currency, it is observed that the share of insured deposits and participation funds in Turkish Lira in the total reached 62.5% at the end of 2019. In 2019, deposit and participation funds belonging to domestic residents reached to 2,388 billion TL while total deposits and participation funds reached to 178 billion TL in non-residents.

As of the end of 2019, excluding zero balance accounts, approximately 115 million real and legal persons have deposit and participation fund accounts in deposit and participation banks.

As of the end of 2019, 98.3% of account holders have deposits in the range of 0-150,000 TL in deposit banks. The amount of the accounts in the mentioned range constitutes 21% of the total deposits. Deposits between 150,001-1,000,000 TL, which belong to 1.5% of account holders, correspond to 24.2%

Figure 4. Total and Insured Deposit and Participation Funds (Billion TL)
Source: TMSF 2019 Annual Report p. 31.



of total deposits. The share of deposits more than 1,000,000 TL belonging to 0.2% of account holders is 54.8% of the total.

As of the end of 2019, 97.3% of the account holders have participation funds in the range of 0-150,000 TL in participation banks. The amount of the accounts in the mentioned range constitutes 25.3% of the total participation fund. Funds in the range of 150,001-1,000,000 TL, which belong to 2.3% of the account holders, correspond to 27.2% of the total participation fund. The share of funds more than 1,000,000 TL belonging to 0.3% of account holders is 47.6% of the total.

Table 4. The Number of Deposit and Participation Funds in Turkish Banking Sector

	Total Number of Depositors	Number of Insured Depositors
Deposit Banks	108,614,357	96,854,699
Participation Banks	6,373,119	4,906,101
Total	**114,987,476**	**101,760,800**

Source: TMSF 2019 Annual Report p. 32.

CONCLUSION

The primary function of the financial system and the banking sector, which is the most important sub-sector constituting it, in the economy is to intermediate between funders and fund demanders. Economic stability can only be achieved with a financial sector that operates regularly and efficiently.

After the global crisis, Turkey's economy have shown a remarkable performance not only in its region but in the world. In this process, the banking sector developed rapidly, capital structures and profitability increased, and the understanding of banking changed. After the 2000-2001 crisis, a reconstruction creating radical changes in the Turkish Banking system was carried out. New legal arrangements have been made in a way to affect the entire financial system and new institutions have been created. The reconstruction of the banking sector has affected the market structure and competition level of the sector. One of the main obstacles to achieving competitive results is barriers to market entry.

Turkish banking system has an image where the number of banks is reduced by removing the troubled banks from the system, small and medium scaled banks are directed to merge, foreign banks enter the system, the share of large banks in the market increases and it also increases the concentration, and the competition is between the banks of similar size. The fact that banks can create more than one product due to the system's own features brings along the case that the sector analysis is made for different product groups. However, in general, it is observed that the sector has the features of imperfect competition market (oligopolistic) considering the number of banks in the market and their market shares.

However, some regulations and some economic and political events that occupy the agenda negatively affected the banking sector. Today, although the basic trends such as increasing competitive conditions, passion for holding open positions in foreign currency, increasing regional risks, product targeted approach, individual target realizations, decreasing profits as a result of decreasing margins, and pressure for more sales have enforced Turkish banking sector, it is progressing strongly in the global market. Therefore, the share of the banking sector in maintaining economic stability should not be forgotten and the necessary attention should be given. In addition, regulatory authorities should take measures to reduce concentration arising in the banking industry.

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KEY TERMS AND DEFINITIONS

2008 Global Crisis: It is the economic progress that emerged in the last months of 2008 and negatively affected many countries.

Bank: A bank is a financial institution that accepts deposits and recurring accounts from the people and creates Demand Deposit.

Competition: It is the whole of the competition activities which are carried out against competitors with the aim of providing superiority.

Concentration: It is that a large percentage of the total of economic resources and activities are controlled or owned by a small percentage or a few of the units that own or control this total.

Globalization: It is an international integration process resulting from the exchange of products, ideas, cultures, and worldviews.

Market: The environment where purchase and sale decisions that allow buyers and sellers to meet is called market.

Oligopoly Market: It can be defined as the market structure where there is a large number of buyers while there are a few sellers.

Chapter 33
Accounting Convergence, Mandatory Adoption of IFRS, and Accounting Quality

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ABSTRACT

This chapter aims to investigate whether the mandatory adoption of international financial reporting standards (IFRS) leads to an increase in the accounting quality measured by value relevance and the role of the national institutional factors, namely development of the capital market, legal enforcement, cultural factors, legal systems, and book-tax conformity, in the change in value relevance after IFRS adoption. Towards this end, the price and financial data of listed firms from eleven EU countries for 15 years were examined by panel data methods. The results of this study indicate that mandatory adoption of IFRS leads to an increase in the value relevance of EPS however it has not a significant effect on the value relevance of BVPS. It is also found that, among the national institutional factors, legal enforcement, cultural factors, and book-tax conformity have a significant effect on the change in value relevance after IFRS adoption.

INTRODUCTION

Convergence has been defined as minimizing international differences in accounting standards by adopting a set of uniform standards globally (Whittington, 2005; Doupnik and Perera, 2011). Proponents of the convergence process claim that convergence is necessary and useful due to globalization of capital markets, simplification of valuation in foreign company acquisitions, reduction of financial reporting costs of companies listed in foreign stock exchanges, easy access to capital, reduction in capital costs, facilitation of international transfers of accounting staff, and increase in the quality of international accounting practices. On the other hand, the opponents of the convergence process argue that there are big differences between countries and the attempt to eliminate these differences would result in huge political costs, national institutions will not comply with any international authority, it is almost an im-

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possible task to develop rules that would please all the related parties all over the world, there is already a developed capital market without uniform accounting standards, requiring some companies to follow a set of standards irrelevant to them would lead "standards overload", accounting differences between countries may be necessary and appropriate due to different environmental dynamics (Doupnik and Perera, 2011). Despite the views that do not support the convergence process, International Financial Reporting Standards (IFRS) have been adopted rapidly worldwide. Such rapid adoption of IFRS is due to the general perception that IASB develops high-quality accounting standards (Ball, 2016), and using a single set of financial reporting standards throughout the world would make it easier to compare firms across countries (Holthausen, 2009). However, both the principle-based characteristics of IFRS and other financial reporting incentives of countries may invalidate this assumption. Managers may use the flexibility and discretion allowed in principle-based standards for their own benefits and manipulate their earnings by choosing an accounting method that does not reflect the basic economic event. Also, country-specific characteristics such as legal systems, tax systems, cultural factors, and so on, may eliminate the improvement in accounting quality due to IFRS.

The widespread use of IFRS throughout the world has raised the question of whether IFRS causes an increase in accounting quality as expected. There are different views and findings whether IFRS, which is expected to guide international accounting practices, can achieve global convergence in accounting practice and improve the accounting quality or not. The contradictory findings in the relevant literature cause the impact of IFRS adoption on accounting quality continues to be a current subject of academic research. In order to clarify the actual effect of IFRS on accounting quality, it is needed to investigate further by taking into account national institutional factors (also called country-specific factors) such as legal systems, tax systems, cultural values that may affect accounting quality.

This study contributes to the literature by examining the role of national institutional factors in the change in value relevance of EPS and BVPS after IFRS adoption. Value relevance is addressed as a dimension of accounting quality and cultural factors, legal systems, legal enforcement, capital market development, and book-tax conformity are examined as national institutional factors in this study. Through the extant literature, institutional factors of countries have been evaluated in terms of data obtained from academic studies performed more than 20 years ago (as La Porta et al., 1998) without considering the possibility that this data may have lost its validity. This research contributes to the extant literature by addressing various national institutional factors at once and using up-to-date data to measure these national institutional factors. The sample is composed of listed firms from 11 European Union countries including Austria, Belgium, France, Germany, Ireland, Italy, Luxembourg, Netherlands, Poland, Portugal, and Slovenia.

The results of this study indicate that mandatory adoption of IFRS leads to an increase in the value relevance of EPS however it has not a significant effect on the value relevance of BVPS. Moreover, the national institutional factors such as legal enforcement, cultural factors, and book-tax conformity are found to have a role in the change in the value relevance after IFRS adoption.

The remainder of the chapter is organized as follows: After presenting the relevant literature in the second section, the conceptual framework and the research hypotheses are presented in the next part. Section 4 describes the sample, variables measurement, and the research design. Section 5 presents empirical results and robustness tests. Finally, Section 6 concludes the research.

LITERATURE

The effect of IFRS on value relevance has frequently been examined in academic studies with a lack of uniform conclusions on the subject. While some academic studies indicate no improvement in value relevance due to IFRS adoption (Harris et al., 1994; Joos and Lang, 1994; Martínez et al., 2014), some suggest that there is a significant difference between the value relevance of IFRS-based accounting data and the ones prepared according to local accounting standards (Barth et al., 2008; Bartov et al., 2005; Devalle et al., 2010; Iatridis, 2010; Kang, 2013; Morais and Curto, 2009).

On the other hand, value relevance has also found to be affected by some country-specific factors. The finding indicating that value relevance is lower in bank-oriented financial systems than market-oriented ones (Ali and Hwang, 2000) demonstrate that the level of capital market development has an impact on value relevance. Burgstahler et al. (2006) revealed that there is a strong relationship between strong legal systems and higher value relevance and lower earnings management. Value relevance was found to be high in the countries where investor protection and legal enforcement is high (Lourenço and Curto, 2008; Narktabtee and Patpanichchot, 2011). Ali and Hwang (2000) revealed that the value relevance in countries where the private sector is active in the standard-setting process and tax rules do not influence financial accounting practices is higher than the countries where the opposite is the case.

Besides these studies which solely investigate the effect of IFRS adoption or country-specific factors on value relevance, there are also some studies examining the effect of both as in this study. In an early study of European countries by Morais and Curto (2009), it was found that the value relevance after IFRS adoption is higher in countries with low book-tax conformity. The authors also concluded that companies in countries with high enforcement have lower value relevance after IFRS adoption. Narktabtee and Patpanichchot (2011) showed that the positive effect of IFRS on value relevance is valid for firms from countries having higher investor protection. Manganaris et al. (2016) examined the value relevance after IFRS adoption for the banks in 15 European countries. By dividing the sample as conservative and non-conservative banks, the authors found that conservative banks in the countries having high enforcement and English-origin and non-conservative banks with French-origin experienced an improvement in value relevance after IFRS adoption. Hillier et al. (2016) found a significant increase in the value relevance of EPS only in the countries with strong legal enforcement after IFRS. Cultural factors were found to continue influencing accounting choices even after the implementation of IFRS (Fearnley and Gray, 2015; Vann, 2012). Filip and Raffournier (2013) showed that market size continues to affect the value relevance of accounting information despite the IFRS adoption.

Above mentioned studies indicate that the evidence regarding the effect of mandatory IFRS adoption on value relevance is mixed and dependent on the institutional context of countries. This study contributes to the literature by analyzing the effect of mandatory IFRS adoption on value relevance while considering a wide range of institutional factors namely cultural factors, legal systems, legal enforcement, capital market development, and book-tax conformity. These institutional factors were measured with more current data than those used in the previous studies. Another contribution of this study is the use of panel data analysis methods for the empirical analyses which enable to control the unobserved heterogeneity, decrease the problems of multicollinearity, and omitted variable bias.

CONCEPTUAL FRAMEWORK

In this part, the factors affecting accounting quality and thereby value relevance are discussed under three main headings: accounting standards/IFRS, national institutional factors, and firm-specific factors. And the research hypotheses are developed based on these discussions.

Accounting Standards/IFRS

In order to produce high-quality financial reports, the financial reporting standards used to prepare those reports should be at high quality as well. Since the IASB's IFRS, are developed mainly by non-governmental institutions, are designed to ensure that financial reports do not reflect the legal form but the economic substance of the trading activities of the firms, make the balance sheet and income statement more informative, ensure timely recognition of gains and losses with the help of fair value measurement, and limit the managers' discretion to manipulate earnings, they are assumed to be high-quality standards. Therefore, it is anticipated that IFRS, which is expected to provide high-quality, comparable, and more transparent financial reports, will increase the efficiency of contracts between the firm and managers, decrease agency costs and strengthen corporate governance (Ball, 2006). Moreover, it is assumed that high-quality accounting standards will lead to positive changes principally in accounting quality and accordingly economic indicators such as foreign direct investment inflows and gross domestic product. Based on all these assumptions it is possible to say that IFRS will improve the association between the reported accounting numbers by firms and their stock prices in the market. This association is called as value relevance of accounting information. If accounting information has a predictable relationship with the security prices, it is called as "value relevant" (Barth et al., 2001). Based on these arguments, the first hypothesis to be tested in this study is developed as follows:

H_1: Mandatory IFRS adoption leads to an increase in the value relevance of accounting information.

National Institutional Factors

Accounting standards are regulations or rules governing the preparation of financial statements and are expected to guide accounting practices. However, the practice may not always be consistent with accounting standards. The factors such as weak enforcement of accounting standards, the preference of firms to report more than the standards require, the permission of deviation from standards in some countries when the standards do not reflect the economic substance cause deviations between practice and standards (Choi and Meek, 2010). Furthermore, applying the same accounting standards will not ensure similar financial reporting practices. This is because, political, economic, social, and legal institutions affecting the financial reporting practice constitute a network that is complementary to this process and should be in a favorable nature. The fact that national institutional factors shape and govern accounting practices in a country has been demonstrated in numerous studies in accounting literature. Brown and Clinch (1998) state that accounting standards differ between countries because of the deep-seated differences in the legal systems, the relation between firms and their funding sources, tax regulations, inflation rates, historical relations, the development level of the economy and education. Nobes and Parker (2010), on the other hand, list the national institutional factors that differentiate accounting systems as culture,

the legal system, funding sources, tax practices, external factors (economic-political events, compliance with IFRS), and the accounting profession. Similarly, Doupnik and Perera (2011) summarize the factors affecting the financial reporting practices of a country as the legal system, taxation, sources of funding, inflation, political and economic ties.

In this context, this study investigates the effect of mandatory IFRS adoption on value relevance by taking into account capital market development, legal enforcement, cultural factors, legal systems, and book-tax conformity.

Capital Market Development

Nobes (1998) suggests that most of the factors considered as international differences in accounting systems originate from the stock market or are related to the stock market and even, argues that if a country is not dominated by another country in a cultural sense, the financial system of that country is the main driver of the financial reporting system.

Berglof (1990) classifies financial systems in two groups as bank-oriented and market-oriented systems. In the bank-oriented financial systems, there is a close relationship between firms and banks that meet most of their financing needs. The most important user of accounting information is the banks and there is little need for financial statements to be issued since banks have direct access to the financial information of companies. On the other hand, in market-oriented financial systems, there are a large number of investors who need financial information to monitor the management and evaluate their investments. In such systems, the most important users of accounting information are shareholders, and financial reporting is shaped by the needs of the stock market. These different characteristics of the market and bank-oriented financial systems can cause the accounting quality to be different in these two types of financial system.

Based on these arguments, capital market development is expected to have a role in the change in value relevance after IFRS adoption, and the related hypothesis is developed as follows:

H_2: The incremental change in value relevance after IFRS adoption is higher in countries with developed capital markets than in countries where the capital market is not developed.

Legal Enforcement

The legal enforcement expresses the legal obligations of administrators to financiers, how the courts interpret and apply these obligations and it differs from country to country (Shleifer and Vishny, 1997). The rules of law in a country and their enforcement determine the level of investor protection, which determines the benefits and costs of expropriation of minority shareholders by the controlling shareholders or managers. When the level of investor protection is high, the controlling shareholders or managers have to use more sophisticated techniques to expropriate minority shareholders, and this increases the cost of expropriation and reduces the benefits that controlling shareholders or managers will acquire from expropriation. In this context, strong investor protection discourages controlling shareholders and managers from expropriating minority shareholders and reduces their tendency to manipulate accounting numbers to conceal their private interests of control from the external parties (Narktabtee and Patpanichchot, 2011).

The effect of legal enforcement on different dimensions of accounting quality has been the subject of many academic works. Leuz et al. (2003) who investigate the relationship between investor protection and earnings management revealed that outsider economies with strong investor protection have the lowest level of earnings management and that the highest level of earnings management is in the insider countries with weak investor protection. Landsman et al. (2012) found that legal enforcement is a factor affecting the extent to which IFRS increases the information content of earnings.

From this point of view, the third hypothesis is developed as follows:

H_3: The incremental change in value relevance after IFRS adoption is higher in countries with higher legal enforcement than in countries with lower legal enforcement.

Cultural Factors

The link between culture and accounting has first been mentioned explicitly in the study of Violet (1983) who argues that the success of an international set of accounting standards will be limited to cultural values (Fearnley and Gray, 2015 quoted from Violet (1983)). Gray (1988) uses Hofstede's (1980, 1983) cultural dimensions to examine the relationship between accounting values and systems and cultural factors. The link between cultural values, accounting values, and accounting practices proposed by Gray has been tested by academic studies. Those who examine the impact of IFRS adoption, in particular, find that despite the implementation of IFRS, the cultural values of the countries continue to influence their accounting practices (Fearnley and Gray, 2015; Hillier et al., 2016; Vann, 2012).

In this study, secrecy indexes (Uncertainty Avoidance + Power Distance – Individualism) are calculated using cultural factor scores of the countries determined by Hofstede and the role of the country's secrecy level in the change in value relevance after IFRS adoption is investigated. Secrecy means that the information about the business is only disclosed to the parties closely related to the management and the financing of the business. When the secrecy level is high in a country, information asymmetry will also be high, and this will result in the financial reports being not transparent enough. The relevant hypothesis is as follows:

H_4: The incremental change in value relevance after IFRS adoption is higher in countries with a lower level of secrecy than in countries with a higher level of secrecy.

Legal Systems

Soderstrom and Sun (2007) suggest that the main determinant of the country's accounting quality is the legal and political system in that country. The legal and political systems affect the accounting quality directly through enforcement of accounting standards as well as indirectly shaping the factors such as accounting standards and other financial reporting incentives such as financial market development, capital and ownership structure, tax system.

There are two main groups of legal systems used in the literature: code law and common law (Ball et al., 2000; La Porta et al., 1998). Common law, also called as "Anglo-Saxon," "British-American," or "micro-based" (Choi and Meek, 2010), is a system developed in England during 11. and 12. centuries, by the court's acceptance of civil judgments given before as precedents. Code law system, originated in the Roman civil law and was developed further in European universities during the Middle Ages

(Doupnik and Perera, 2011), also called as "Continental," "legalistic," or "macro-uniform (Choi and Meek, 2010), has been developed to allow state control over the preparation and interpretation of laws. A common law rule seeks to provide an answer to a particular situation rather than to formulate a general rule for the future (Nobes and Parker, 2010). In code law countries, on the other hand, there are rules and written laws governing a large number of human activities (Doupnik and Perera, 2011). The unique characteristics of common law and code law systems are also reflected in accounting practices. In common law countries, accounting is oriented toward the concepts of fair presentation, transparency, and full disclosure. There is a distinction between financial accounting and tax accounting. The source of funding for businesses is mainly provided by capital markets and financial reporting aims to meet investors' information needs. The accounting and financial reporting standards are being prepared by private sector institutions and the accounting profession plays an important role in accounting practices and the preparation of standards. On the other hand, in code law countries, accounting is shaped based on the framework of legal regulations and by inadequate and non-transparent disclosures. Financial accounting and tax accounting practices are highly aligned. Funding sources for businesses are usually banks, credit institutions, and governments. Financial reporting aims to protect creditors. Institutions that prepare accounting and financial reporting standards are generally interested in public sector activities and there is little impact of the accounting profession in preparing the standards (Choi and Meek, 2010). Due to these characteristics, there is an expectation that the accounting quality in code law countries will be lower compared to common law countries (La Porta et al., 1998; Mueller et al., 1997). Ball et al. (2000) found that financial reporting in code law countries is of lower quality than common law countries due to high recognition delays and less conservative accounting methods. However, some academic studies argue that the code / common-law distinction does not represent the whole of the institutional structure, so it is insufficient as a measure of investor protection (Hillier et al., 2016 quoted from Dam, 2006) or legal origin is only a proxy for structural, religious, cultural and other differences so it is not alone responsible for financial developments. Likewise, Leuz (2001) states that it may be misleading to focus on the legal origin as a determining factor in the quality of accounting information. He asserts that while legal origin remains the same, the factors such as legal enforcement, investor protection in the country may change, so these are the main factors researchers should focus on.

In order to test the role of legal systems in the change in value relevance after IFRS adoption, the fifth hypothesis of this study is developed as follows:

H_5: The incremental change in value relevance after IFRS adoption is higher in countries classified as Anglo-Saxon than in countries not classified as Anglo-Saxon.

Tax System

The tax system of a country can also affect the accounting quality in different aspects. First, when there is a close tie between accounting standards and tax rules, the main aim of financial reports would become to collect tax for the government, hence the quality of accounting standards would fall. Secondly, higher tax rates would increase the tendency to minimize taxable profits, that is, the tendency to show profits lower in financial reports. Third, the tax authority of a country has the legal authority to verify the profit of a company and the sole party who benefits from tax collection is the government. Finally, legal and political systems will influence accounting quality through the tax system. In code law countries, financial reporting is used as a tool to determine tax liability, whereas in common law countries

the main aim of financial reporting is to inform stakeholders about the financial results of the business activities. Also, factors such as the determination of tax rates and the level of corruption in the country affecting tax collecting efficiency are the processes by which legal and political systems affect the taxation system and hence the quality of accounting (Soderstrom and Sun, 2007).

In the literature, the case in which tax rules and accounting practices are highly aligned is defined as high book-tax conformity, and the case in which accounting and tax rules are independent of each other is defined as low book-tax conformity. Academic studies have often findings indicating low value relevance (Ali and Hwang, 2000; Morais and Curto, 2009) and high tendency to earnings management (Burgstahler et al., 2006; Haw et al., 2004) in the countries where book-tax conformity is high. Haw et al. (2004) revealed that book-tax conformity is even more effective than legal and judicial systems in reducing earnings management.

In this study, it is hypothesized that, in countries where book-tax conformity is high, tax rules instead of IFRS will have an impact on the preparation of financial reports and the value relevance of the financial reports prepared with tax focus will be low. So, the last hypothesis is developed as follows:

H_6: The incremental change in value relevance after IFRS adoption is higher in countries with low book-tax conformity than in countries with high book-tax conformity.

Firm-Specific Factors

All the factors mentioned so far are country-specific factors that may cause accounting quality to differ from country to country. However, accounting quality may differ not only from country to country but also between the firms in the same country. Firm-specific factors can determine the accounting quality of the firms' financial reports. Gaio (2010) revealed that larger firms, companies with more investment opportunities, and firms with more insider ownership have higher accounting quality while firms with higher sales volatility, variability in operating cash flow, longer operating cycle, and frequent loss reporting have a lower accounting quality. In the academic studies on value relevance, it has determined that firm size and the level of fixed assets (Papadatos and Bellas, 2011), organization form (multinational or not), and the risk measured by the level of capital assets (Anandarajan et al., 2011) affect value relevance. Based on the relevant literature, size, and financial leverage of the firm are considered as control variables in this study.

RESEARCH DESIGN

Sample

Based on the data availability, the initial sample consisted of all the listed firms from Austria, Belgium, France, Germany, Ireland, Italy, Luxembourg, Netherlands, Poland, Portugal, and Slovenia having financial and price data in Datastream for 2000-2014. The cross-listed firms, the firms adopted IFRS before 2005 or not adopted IFRS after 2005, the firms of which the country of incorporation is different than the country of the stock exchange, financial firms, the firm-years with missing data, the firm-years with zero or negative book value of equity, and the firm-years with fiscal-year end different from December 31 were excluded from this initial sample. The final sample covers 536 firms and 5,066 firms-years.

The final sample classification by country is given in Table 1. As can be seen from Table 1, Poland (31%), France (28%), and Germany (17%) constitute 76% of the sample for EU countries.

Table 1. Sample Classification by Country

Country	Book-Tax Conformity (BTC)	Legal Origin	Secrecy	Firm-Years	%
Austria	High	Continental European	Low	37	1
Belgium	High	Continental European	High	276	5
France	Low	Continental European	High	1,425	28
Germany	Low	Continental European	Low	862	17
Ireland	Low	Anglo-Saxon	Low	43	1
Italy	Medium	Continental European	Low	201	4
Luxembourg	High	Continental European	Low	78	2
Netherlands	No BTC	Anglo-Saxon	Low	271	5
Poland	Medium	Mixed	High	1,559	31
Portugal	Low	Continental European	High	144	3
Slovenia	Medium	Mixed	High	170	3
Total				**5,066**	**100**

Notes: "Book-Tax Conformity" is based on the study of Procházka and Molín (2016), "Legal Origin" is the accounting cluster classification of Mueller et al. (1997). The country's level of secrecy, which is calculated using the cultural dimension scores determined by Hofstede (Uncertainty Avoidance + Power Distance - Individualism), is classified as high if it is greater than or equal to the sample median.

Table 2 presents mean (μ), median (p50), and standard deviation (s) values of the financial variables for the whole period, pre- and post-IFRS periods, respectively. The mean values of PRICE, EPS, SIZE, and LEV differ significantly between the pre- and post-IFRS periods.

Table 2. Descriptive Statistics

	WHOLE PERIOD			PRE-IFRS			POST-IFRS		
Variable	**μ**	**p50**	**S**	**μ**	**p50**	**S**	**μ**	**p50**	**S**
PRICE	26.75	6.98	57.80	29.59*	8.30	59.70	25.85	6.46	57.16
BVPS	22.56	5.61	48.84	22.91	6.07	47.55	22.45	5.43	49.24
EPS	1.36	0.31	3.89	1.56**	0.39	4.08	1.29	0.29	3.82
SIZE	10.82	10.78	1.42	10.63***	10.59	1.35	10.88	10.83	1.44
LEV	0.53	0.55	0.19	0.58***	0.61	0.19	0.52	0.53	0.19

Research Models and Variable Descriptions

The link between the accounting information and stock market figures can be tested by either the Return or the Price models (Ertuğrul, 2020). Since the Price model makes it possible to analyze the value rel-

evance of book value per share, the Price model developed by Ohlson (1995) and Feltham and Ohlson (1995) was used in this study. Ohlson's Price model is basically as follows:

$$PRICE_{it} = a_0 + a_1 BVPS_{it} + a_2 EPS_{it} + \varepsilon_{it}$$

Ohlson emphasizes that the addition of other information components to the model would increase the predictive power of the model to estimate stock prices (Hillier et al., 2016). From this point of view, some variables which are predicted to affect the value relevance of accounting information were added to this basic model and the research hypotheses were tested based on these models. The regression models developed for each hypothesis are presented in the following sub-sections.

The Change in Value Relevance After IFRS Adoption – Model (1)

In order to test H_1, the variable of IFRS was added to the basic price model. IFRS is a dummy variable equals to 1 if the "accounting standards followed" for the specific firm-year is one of the listed ones below, and zero otherwise:

- IFRS
- International standards
- International standards and some EEC guidelines
- Local standards with EEC and IASC guidelines
- Local standards with some IASC guidelines

IFRS dummy variable was interacted with the variables BVPS (IFRS*BVPS) and EPS (IFRS*EPS) to investigate the incremental effect of mandatory IFRS adoption on the value relevance of BVPS and EPS separately. The final version of the price model developed to test the hypothesis H_1 is as follows:

$$\begin{aligned} PRICE_{it} = {} & a_0 + a_1 BVPS_{it} + a_2 EPS_{it} + a_3 IFRS_{it} + a_4 IFRS_{it} * BVPS_{it} \\ & + a_5 IFRS_{it} * EPS_{it} + a_6 SIZE_{it} + a_7 LEV_{it} + a_a \sum YEAR_i + \varepsilon_{it} \end{aligned} \quad (1)$$

SIZE, LEV, and YEAR were added to the model as control variables. SIZE is the natural logarithm of market value and LEV is the ratio of total liabilities / total assets at fiscal year-end. YEAR is a dummy variable equal to 1 for each sample firm-year, and zero otherwise.

The Role of Capital Market Development in the Change in Value Relevance After IFRS Adoption – Model (2)

To examine the role of capital market development in the change in value relevance after IFRS adoption, SMARKET variable representing the activity and volume level of the country's capital market was added to the model (1) which is developed for H_1. SMARKET is a dummy variable equals to 1 if the mean of the country's ranks on 4 ratios relate to capital market is lower than or equal to the sample median for that year and zero otherwise. These 4 ratios are; "market capitalization of listed companies

/ gross domestic product", "the number of publicly listed companies / total population", "stocks traded (domestic + foreign) / gross domestic product" and "stocks traded (domestic) / market capitalization". To see the difference between the marginal effect of IFRS on the value relevance of BVPS and EPS for developed and undeveloped capital markets, SMARKET*IFRS*BVPS and SMARKET*IFRS*EPS interaction terms were added to the model. Finally, for a valid model, all lower-order interaction terms were also added to the model. The final version of the model developed for H_2 is as follows:

$$\begin{aligned} PRICE_{it} = {} & a_0 + a_1 IFRS_{it} + a_2 SMARKET_{\text{int}} + a_3 SMARKET_{\text{int}} * IFRS_{it} + a_4 EPS_{it} \\ & + a_5 BVPS_{it} + a_6 IFRS_{it} * EPS_{it} + a_7 IFRS_{it} * BVPS_{it} + a_8 SMARKET_{\text{int}} * EPS_{it} \\ & + a_9 SMARKET_{\text{int}} * BVPS_{it} + a_{10} SMARKET_{\text{int}} * IFRS_{it} * EPS_{it} + a_{11} SMARKET_{\text{int}} \\ & * IFRS_{it} * BVPS_{it} + a_{12} SIZE_{it} + a_{13} LEV_{it} + a_a \sum YEAR_i + \varepsilon_{it} \end{aligned} \tag{2}$$

The Role of Legal Enforcement in the Change in Value Relevance After IFRS Adoption – Model (3)

The variable of ENFORCE represents the legal enforcement power of the country. ENFORCE is a dummy variable equals to 1 if the "legal system & property rights" score of the country in the Economic Freedom of the World: 2016 Annual Report (Gwartney et al., 2016) is greater than or equal to the sample median for that year, and zero otherwise. This score includes following criteria: judicial independence, impartial courts, protection of property rights, military interference in rule of law and politics, the integrity of the legal system, legal enforcement of contracts, regulatory restrictions on the sale of real property, reliability of police, and business costs of crime. ENFORCE*IFRS*BVPS and ENFORCE*IFRS*EPS interaction terms were added to the model to measure the difference of the change in value relevance of BVPS and EPS after IFRS adoption in the cases of low and high legal enforcement. After adding all lower-order interaction terms to the model, the final version of the model developed for H_3 is as follows:

$$\begin{aligned} PRICE_{it} = {} & a_0 + a_1 IFRS_{it} + a_2 ENFORCE_{\text{int}} + a_3 ENFORCE_{\text{int}} * IFRS_{it} + a_4 EPS_{it} \\ & + a_5 BVPS_{it} + a_6 IFRS_{it} * EPS_{it} + a_7 IFRS_{it} * BVPS_{it} + a_8 ENFORCE_{\text{int}} * EPS_{it} \\ & + a_9 ENFORCE_{\text{int}} * BVPS_{it} + a_{10} ENFORCE_{\text{int}} * IFRS_{it} * EPS_{it} + a_{11} ENFORCE_{\text{int}} \\ & * IFRS_{it} * BVPS_{it} + a_{12} SIZE_{it} + a_{13} LEV_{it} + a_a \sum YEAR_i + \varepsilon_{it} \end{aligned} \tag{3}$$

The Role of Cultural Factors in the Change in Value Relevance After IFRS Adoption – Model (4)

The variable of SECRECY developed utilizing Hofstede's cultural dimension scores for the countries was added to the model (1) to test the fourth hypothesis. SECRECY is a dummy variable equals 1 if the country's secrecy score (Uncertainty Avoidance + Power Distance - Individualism) is greater than or equal to the sample median and zero otherwise. SECRECY*IFRS*BVPS and SECRECY*IFRS*EPS interaction terms measure the difference between the marginal effect of IFRS on the value relevance of BVPS and EPS for the cases of the low and high level of secrecy. Model (4) including all lower-order interaction terms is as follows:

$$\begin{aligned} PRICE_{it} = {} & a_0 + a_1 IFRS_{it} + a_2 SECRECY_{in} + a_3 SECRECY_{in} * IFRS_{it} + a_4 EPS_{it} \\ & + a_5 BVPS_{it} + a_6 IFRS_{it} * EPS_{it} + a_7 IFRS_{it} * BVPS_{it} + a_8 SECRECY_{in} \\ & * EPS_{it} + a_9 SECRECY_{in} * BVPS_{it} + a_{10} SECRECY_{in} * IFRS_{it} * EPS_{it} \\ & + a_{11} SECRECY_{in} * IFRS_{it} * BVPS_{it} + a_{12} SIZE_{it} + a_{13} LEV_{it} + a_a \sum YEAR_i + \varepsilon_{it} \end{aligned} \quad (4)$$

The Role of Legal Origin in the Change in Value Relevance After IFRS Adoption – Model (5)

ORIGIN is a dummy variable equals to 1 if the country is classified as Anglo-Saxon, and zero otherwise. To see the difference between the marginal effect of IFRS on the value relevance of BVPS and EPS for Anglo-Saxon countries and the others, ORIGIN*IFRS*BVPS and ORIGIN*IFRS*EPS interaction terms and all lower-order interaction terms were added to the model (1) and model (5) is developed as follows:

$$\begin{aligned} PRICE_{it} = {} & a_0 + a_1 IFRS_{it} + a_2 ORIGIN_{in} + a_3 ORIGIN_{in} * IFRS_{it} + a_4 EPS_{it} \\ & + a_5 BVPS_{it} + a_6 IFRS_{it} * EPS_{it} + a_7 IFRS_{it} * BVPS_{it} + a_8 ORIGIN_{in} \\ & * EPS_{it} + a_9 ORIGIN_{in} * BVPS_{it} + a_{10} ORIGIN_{in} * IFRS_{it} * EPS_{it} \\ & + a_{11} ORIGIN_{in} * IFRS_{it} * BVPS_{it} + a_{12} SIZE_{it} + a_{13} LEV_{it} + a_a \sum YEAR_i + \varepsilon_{it} \end{aligned} \quad (5)$$

The Role of Book-Tax Conformity in The Change in Value Relevance After IFRS Adoption – Model (6)

BTC is a dummy variable equals to 1 if the country's level of book-tax conformity is classified as high, and zero otherwise. The necessary data for this classification was obtained from the study of Procházka and Molín (2016). In this study, the countries labeled with average, low and no BTC by Procházka and Molín (2016) were included in the group of low BTC and the countries labeled with high BTC by Procházka and Molín (2016) were included in the group of high BTC. To see the difference between the marginal effect of IFRS on the value relevance of BVPS and EPS between these two groups, BTC*IFRS*BVPS and BTC*IFRS*EPS interaction terms were added to the model. The final version of the model developed for H_6 including all lower-order interaction terms is as follows:

$$\begin{aligned} PRICE_{it} = {} & a_0 + a_1 IFRS_{it} + a_2 BTC_{in} + a_3 BTC_{in} * IFRS_{it} + a_4 EPS_{it} + a_5 BVPS_{it} \\ & + a_6 IFRS_{it} * EPS_{it} + a_7 IFRS_{it} * BVPS_{it} + a_8 BTC_{in} * EPS_{it} + a_9 BTC_{in} \\ & * BVPS_{it} + a_{10} BTC_{in} * IFRS_{it} * EPS_{it} + a_{11} BTC_{in} * IFRS_{it} * + a_{12} SIZE_{it} \\ & + a_{13} LEV_{it} + a_a \sum YEAR_i + \varepsilon_{it} BVPS_{it} \end{aligned} \quad (6)$$

RESULTS AND DISCUSSION

A three-step method was followed for the statistical analyses of the regression models. In the first step, pooled OLS, fixed effects, and random effects methods were run for each regression models and the most efficient estimation method was determined. As a second step, the dataset related to the regression models was tested to determine the deviations from the relevant regression assumptions. Finally, using the most appropriate estimator and the standard errors that are robust to deviations from the assumptions, the results of the regression model were reported and interpreted. The first 3 regression models (models (1), (2), (3)) were estimated by fixed effects method with Driscoll Kraay standard errors which are robust to heteroscedasticity, serial correlation, and cross-sectional dependence. Although fixed effects model is more efficient according to the result of the Hausman test used to choose between fixed and random effects models, for the last three regression models (models (4), (5), (6)) random effects model with Robust standard errors were used to be able to get the coefficients of the time-invariant variables: SECRECY, ORIGIN, and BTC.

Table 3 reports the results of Model (1), (2), (3), (4), (5), and (6) respectively. For the sake of clarity, not all the lower order interaction terms but only the main interaction terms were reported for the models 2-6 in the Table 3.

Table 3. Regression Results

	Model (1) FE	**Model (2) FE**	**Model (3) FE**	**Model (4) RE**	**Model (5) RE**	**Model (6) RE**
BVPS	0.28***					
	(3.4)					
EPS	-0.13					
	(-0.2)					
IFRS	1.85					
	(1.3)					
IFRS*BVPS	0.04					
	(1.2)					
IFRS*EPS	2.15***					
	(3.2)					
SMARKET*IFRS*BVPS		-0.30*				
		(-1.9)				
SMARKET*IFRS*EPS		-0.73				
		(-0.7)				
ENFORCE*IFRS*BVPS			-0.20			
			(-1.2)			
ENFORCE*IFRS*EPS			3.42***			
			(3.5)			
SECRECY*IFRS*BVPS				-0.42***		
				(-4.3)		

continues on following page

Table 3. Continued

	Model (1) FE	Model (2) FE	Model (3) FE	Model (4) RE	Model (5) RE	Model (6) RE
SECRECY*IFRS*EPS				0.02		
				(0.0)		
ORIGIN*IFRS*BVPS					-0.06	
					(-0.4)	
ORIGIN*IFRS*EPS					-0.66	
					(-0.8)	
BTC*IFRS*BVPS						0.61***
						(7.4)
BTC*IFRS*EPS						-1.95**
						(-2.0)
SIZE	9.04***	9.12***	9.07***	6.40***	7.22***	6.75***
	(13.2)	(14.5)	(15.2)	(6.4)	(6.4)	(6.4)
LEV	-3.48	-3.14	-2.82	8.14**	1.89	3.76
	(-1.7)	(-1.5)	(-1.2)	(2.4)	(0.3)	(0.7)
YEAR EFFECT	Yes	Yes	Yes	Yes	Yes	Yes
Constant	-79.8***	-78.3***	-78.1***	-62.7***	-66.6***	-64.9***
R2	0.33	0.35	0.33	0.73	0.67	0.68

Notes: For the sake of clarity, not all the lower order interaction terms but only the main interaction terms were reported for the models 2-6 in the Table 3. FE: results with fixed effects estimator with Driscoll Kraay standard errors. RE: results with random effects estimator with robust standard error. R2: square of the within-group (overall) correlation for RE (FE) models. t-values are shown in parentheses. * p<0.10, ** p<0.05, *** p<0.01

Results of Model (1)

According to the results of the Model (1), the coefficient of the interaction term between IFRS and EPS is positive and significant, while the coefficient of the interaction term between IFRS and BVPS is not significant. This means that IFRS causes an increase in the value relevance of EPS however it has no significant effect on the value relevance of BVPS. This finding is consistent with the findings of Agostino et al. (2011), Devalle et al. (2010), and Elbakry et al. (2017). Devalle et al. (2010) indicated that the value relevance of earnings increases after IFRS adoption in five European countries (Germany, Spain, France, Italy, and the United Kingdom). Agostino et al. (2011), addressing the European banking sector as their research sample, revealed that while IFRS has no significant effect on the value relevance of BVPS, it increases the value relevance of EPS significantly (for organizations with lower transparency). Elbakry et al. (2017) investigated the change in the value relevance after IFRS adoption in Germany and the United Kingdom, and obtained a positive and significant coefficient for the interaction term between IFRS and EPS, but not a significant coefficient for the interaction term between IFRS and BVPS as in this study. Academic studies show that the book value of equity is significant in bankruptcy or liquidation cases where earnings per share is not value relevant. Since this is not the case for the sample used in this research, it is usual for the mandatory adoption of IFRS to not cause an increase in the value relevance of

BVPS. It might be assumed that there will be an increase in the value relevance of BVPS due to the use of fair value measurement after IFRS adoption. However, all the assets and liabilities in the statement of financial position are not valued at fair value and calculating market value of the assets is not enough for the fairly valuation of the whole company. In summary, the statement of financial position does not have a goal of determining the direct equity value, but only serves as an input for equity or credit valuation as in the case of liquidation (Holthausen and Watts, 2001).

Results of Model (2)

As seen from the results of Model (2), while the coefficient of the interaction term SMARKET*IFRS*EPS is insignificant, the coefficient of the interaction term SMARKET*IFRS*BVPS is negative and significant which means that mandatory IFRS adoption causes a small but significant decrease in the value relevance of BVPS in strong markets. It is possible to explain this finding by the fact that the relevance of BVPS for firm valuation is weaker in strong markets. While comparing this finding with the findings of other studies, it is necessary to consider which variables are used to represent the level of capital market development. For example, Ali and Hwang (2000) used the ratio of the "number of publicly traded domestic firms/population" in the year of 1994 to distinguish the markets as bank-oriented and market-oriented and revealed that value relevance is higher in the countries with market-oriented financial systems. Morais and Curto (2009), on the other hand, used the "market capitalization / gross domestic product" ratio from the World Bank database and found no significant relationship between this ratio and the value relevance. In this study, the means of country rankings calculated by using the annual values of "market capitalization of listed companies / gross domestic product", "number of publicly listed companies / total population", "stocks traded (domestic + foreign) / gross domestic product" and "stocks traded (domestic) / market capitalization" ratios representing the development level of the capital market were used as a proxy for capital market development.

Results of Model (3)

According to the results of Model (3), the coefficient of ENFORCE*IFRS*EPS is positive and significant which means that the marginal effect of mandatory IFRS adoption on the value relevance of EPS is higher in countries with higher legal enforcement than in countries with lower legal enforcement. When this coefficient is interpreted together with the finding that the coefficient of IFRS*EPS is not significant, it is possible to say that IFRS alone is not sufficient to increase the value relevance of EPS but high-quality accounting standards together with strong enforcement of these standards will lead to an increase in EPS. On the other hand, the coefficient of ENFORCE*IFRS*BVPS is not significant. This finding means that the marginal change in the value relevance of BVPS after IFS adoption is not affected by the level of legal enforcement.

In academic studies, different proxies have been used for legal enforcement such as; Kaufmann's rule of law index (Daske et al., 2008; Hillier et al., 2016), World Economic Forum measures compiled from public data and data from the survey with executives (Houqe et al., 2012), La Porta et al.'s (1998) law enforcement index based on publicly available data for 1980-1995 (Filip and Raffournier, 2013; Morais and Curto, 2009). Even though the proxy variable used for legal enforcement differs from the one used in this study, Hillier et al. (2016) also found a significant increase in the value relevance of EPS only in the countries with strong legal enforcement after IFRS. Daske et al. (2008) argue that countries with

significant capital-market benefits due to mandatory IFRS adoption are the countries with strong legal enforcement.

Results of Model (4)

According to the results of Model (4), the coefficient of SECRECY*IFRS*EPS is positive but statistically insignificant. It means that the incremental change in the value relevance of EPS after IFRS adoption is not affected by the level of secrecy. On the other hand, the coefficient of SECRECY*IFRS*BVPS is negative and statistically significant which reveals that the marginal effect of mandatory IFRS adoption on the value relevance of BVPS is lower in countries with high secrecy levels than those with low secrecy levels. The fact that the marginal change in the value relevance of BVPS after IFRS adoption varies depending on the level of secrecy suggests that IFRS implementation is not sufficient to remove the influence of cultural factors. Similarly, it has been proved through different academic studies that cultural factors continue to influence accounting choices even after the implementation of IFRS (Fearnley and Gray, 2015; Vann, 2012). The fair value method suggested by the IFRS might not be preferred by the firms in countries with a high level of secrecy, thereby IFRS adoption does not ensure a positive marginal effect on the value relevance of BVPS in these countries. Hillier et al. (2016) claim that even under the fair value approach, IFRS adoption would not have a positive impact on the value relevance of BVPS if the asset markets are illiquid and opaque in countries with high secrecy level.

Results of Model (5)

As seen from the results of Model (5), the coefficients of both ORIGIN*IFRS*EPS and ORIGIN*IFRS*BVPS are statistically insignificant. This means that the marginal effect of mandatory IFRS adoption on the value relevance of EPS and BVPS do not change depending on the legal origin of the country. Similarly, Hillier et al. (2016) revealed that the code / common-law distinction has no significant effect on the value relevance of accounting information in the post-IFRS period. The finding of this study confirms Leuz (2001) who claims that the legal origin is not a sufficient measure of the accounting quality, while it remains the same, other factors affecting accounting quality in practice such as legal enforcement, investor protection may change.

Results of Model (6)

According to the results of Model (6), the coefficient of BTC*IFRS*EPS is negative and significant while the coefficient of BTC*IFRS*EPS is positive and significant. This finding reveals that the marginal effect of mandatory IFRS adoption on the value relevance of EPS is higher in the countries with low book-tax conformity (Italy, Poland, Slovenia, France, Germany, Ireland, Portugal, and the Netherlands for this study). On the other hand, the marginal effect of mandatory IFRS adoption on the value relevance of BVPS is high in countries with high book-tax conformity (Austria, Belgium, and Luxembourg). The low book-tax conformity means that tax and accounting practices are independent of each other. In the opposite case, tax and accounting practices are highly aligned and financial reporting takes place within the framework of tax laws. The increase in book-tax conformity causes the earnings data to contain less information (Ali and Hwang, 2000; Hanlon et al., 2008). Therefore, in the case of high book-tax conformity, it is usual that the value relevance of EPS which contains less information is low and the value

relevance of BVPS is high since the countries that are not investor-oriented but are creditor-oriented due to tax priorities give more importance to the balance sheet data (Arce and Mora, 2002).

Robustness Tests

In order to test the robustness of the results of this study, two different methods commonly used in the relevant literature were followed.

The first method is to repeat the estimation of equations using the closing price per share three months after fiscal year-end instead of the closing price per share six months after fiscal year-end as the dependent variable. Results are the same in terms of acceptance and rejection of hypotheses.

The second method used to check the robustness of the results is to use a balanced panel dataset instead of an unbalanced panel dataset. When the analyses are carried on the balanced panel dataset, different conclusions were obtained for the hypotheses of H3 and H6. Onali et al. (2017) showed that R-squared value representing the value relevance increases significantly when a balanced panel dataset is used instead of an unbalanced panel dataset. In the study of Onali et al. (2017) which examines the listed companies from EU countries as their research sample, the R-squared value obtained by the unbalanced panel dataset is 21.2% and it increases to 37% when the balanced panel of the same dataset is used. Onali et al. (2017) explained this finding by the weak association between market and book values for new firms and firms that eventually become delisted and they stated that this situation may indicate attrition bias and harmful for FE models. Moreover, using a balanced panel dataset may cause survivorship bias since a balanced panel dataset covers the data of only surviving firms during the research period. For the aforementioned reasons, the reported results of this study are based on the analysis of the unbalanced panel dataset.

CONCLUSION

This study examines whether the mandatory IFRS adoption leads to an increase in the value relevance of accounting information and investigates the role of national institutional factors in the change in value relevance after IFRS adoption.

This study shows that the effect of mandatory IFRS adoption on the value relevance of EPS and BVPS differs considerably. Therefore, it may be misleading to measure and interpret the increase or decrease in the value relevance with R-squared found in the academic studies which aim to measure the value relevance of accounting information. Additionally, in most of the current academic studies in the literature, institutional factors of countries were evaluated in terms of data obtained from the research performed more than 20 years ago (as La Porta et al., 1998) without considering the possibility that this data may have lost its validity. This study differs from the current studies in literature by addressing various national institutional factors at once and using up-to-date data to measure these national institutional factors.

The main results suggest that mandatory IFRS adoption leads to an increase in the value relevance of EPS however it has not a significant effect on the value relevance of BVPS. Moreover, the national institutional factors such as legal enforcement, cultural factors, and book-tax conformity have a significant effect on the change in the value relevance of accounting information after mandatory IFRS adoption.

From a broader perspective, this study reveals that IFRS adoption alone is not enough to achieve the goal of high-quality financial reporting on a global scale, and country-specific factors affecting financial reporting should also be considered in this process.

The results of this study should be assessed considering the fact that the sample of this study does not fully cover all of the EU countries, the proxy variables used for national institutional factors may not fully reflect the differences between countries as intended, and IFRS variable used in the regression models of the study does not take into account the differences in the degree of IFRS adoption between countries. Future research should address these limitations of this study.

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KEY TERMS AND DEFINITIONS

Accounting Convergence: Global harmonization in acoounting standards and practices.

Accounting Quality: Relevance and reliability of accounting measures used to inform stakeholders regarding the financial situation and position of the company.

Book-Tax Conformity: The level of alignment between tax and financial reporting rules.

Legal Enforcement: The enforcement level of rules and regulations.

National Institutional Factors: Country-specific factors that constitute the institutional structure of the country.

Value Relevance: The degree of reflection of accounting information to stock prices.

Chapter 34
The Past and the Present of Düyun-u Umumiye:
A Comparative Analysis of Economic Institutions

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ABSTRACT

In this study, it is aimed to examine the relationship between the capitalist state and, institutions that affected Turkey's financial integration with the capitalist global economy in the context of a comparative analysis. In the study, the Ottoman Public Debt Administration (OPDA) which was effective during the process of the integration of the Ottoman state into the world capitalism in the First Globalization Phase (1870-1914) is analyzed by comparison with the General Directorate of Borrowing. The General Directorate of Borrowing is also called as the post-modern Düyun-u Umumiye because of its organizational structure. The common feature of the Ottoman Public Debt Administration and the General Directorate of Borrowing is that both were established after the financial crises. In this study, General Directorate of Borrowing will be evaluated in terms of global economic developments and prospects and, within an analysis in comparison with the Ottoman Public Debt Administration.

INTRODUCTION

In the studies on the history of globalization, the role of the economic institutions throughout the globalization phases of the world economy in the course of the 19th and 21st centuries cannot be neglected. Economic institutions in the periods of globalization are also a subject of debate in the context of state intervention in the economy due to the features of the international capital accumulation regime in expanding its influence and sphere of influence on the local scale. The role of the state in the economy in the first globalization phase (1870-1914) is limited to an unquestionably narrow area when measured in terms of the size of the public sector in natural economy.[1]

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During the 19th century, the aim of the state intervention in the economy was to control and to regulate the processes of the commercialization and monetization. Unlike the early capitalized countries, the state intervention in the economy increased the influence of its regulatory institutions due to economic and political structure of the Ottoman Empire.

The Ottoman economy had been growing in the 19th century with the commercialization and monetization tendencies created by foreign trade relations which dismantle the self-sufficient, closed economic circuits in many districts and create in many cases dual economic structures.[2] Throughout the 19th century, important bankers and banks of the period were located in Istanbul, and thus Istanbul became a financial center.

Due to the Ottoman economic integration to the capitalist global economy, The Ottoman Public Debt Administration (OPDA) played a significant role in the 19th century Ottoman economy through relations of trade and borrowing. This process was successfully managed thanks to OPDA's debt management of reducing the risks of foreign direct investments. OPDA's principles and practices which were managing a significant part of the Ottoman budget revenues are also applied by the economic institutions during Neoliberal globalization era.

The economic and political developments in Turkey have in many aspects, resemblances to the 19th-century Ottoman economy, especially in regard to Istanbul. Financialization processes of the two periods bear resemblances to each other especially after International Financial Center Project came on the agenda in 2000s. The probable meaning of this is that the history repeats itself after 200 years. Within the scope of the Istanbul International Financial Center Project, developments on reorganization of Istanbul as the urban space are remarkable due to the increase in the indebtedness of the companies secured by the public sector, to manage public debts establishing a new institution similar to OPDA was put on the agenda of Turkey. In September 2019, the General Directorate of Public Finance was transformed into an institution that would gather domestic and foreign public debts under a single roof and lead international financial control. This institution is the General Directorate of Borrowing, which will manage and control public borrowing. To make an analysis of General Borrowing Directorate, called as the post-modern Düyun-u Umumiye (OPDA), will help to analyze the financialization process in Turkey. Since the establishment of General Directorate of Borrowing sparked a debate on its existence as post- Düyun-u Umumiye (OPDA), it would make sense to make a projection from past to present in order to understand the role it plays in economy.

THE EVALUATION OF THE 19TH-CENTURY OTTOMAN ECONOMY AND ITS FINANCIAL INSTITUTIONS

The emergence of the institutions effective in the state intervention in economy is directly related to the dynamics of the world economy, production structure and the internationalization of capital. In the context of center-periphery relationship, during the 19th century Ottoman economy, most of the new economic institutions outside the traditional division of labor had failed from the very beginning. The high economic growth in the 19th century is the result of gravitating towards inclusive political and economic institutions by the societies investing in new technologies of the industrial revolution (Acemoğlu & Robinson,2018). On the other hand, the effort in countries where extractive institutions are dominant that to prevent the use of new technologies that will eliminate the traditional division of labor and encourage economic progress has become widespread (Acemoğlu & Robinson,2018, p.227).

However early-capitalized countries gravitated to inclusive political and economic institutions through disengaging from economic relations which were being reproduced by the extractive institutions promoted by political elites. During all periods of globalization, creative destructions have taken place resulting in the elimination of the traditional division of labor. Creative destructions during the 19th century have caused radical economic changes due to the formation and sustainability of inclusive economic institutions that have grown as a result of the economic reforms implemented over the course of the industrial revolution. The Tanzimat Reform Era should be examined as a historical period that gives an opportunity to creative destruction by the effects of both the globalization movement and the reform movement in the local economy.

When the analyses focusing on the references to the importance of monetarist approach are pursued (Toprak, 1989, p.22), it will be possible to develop a theoretical framework that will explain the integration of the Ottoman economy into the world economy. The Tanzimat Reform Era, in which new and inclusive political and economic institutions were formed in the Ottoman economy, should be examined as an historical process in which the realization of creative destruction was most approached. In the 19th century, the Ottoman Empire had an economic structure based on the state's economic exploitation of trade. On the one hand this system was based on economic exploitation of the guild and monopolies in the field of professions and the labor division, and on the other hand on the economic exploitation of the *mültezim* (taxman), in the field of agriculture (Acemoğlu & Robinson, 2018, pp.116-117). Extractive economic and political institutions maintained the traditional division of labor in the society thanks to the existence of monopolies and state property. During 19th-century Ottoman economy, rapid commercialization created an open market economy based on foreign trade and money supply. The closed economy based on the traditional division of labor subsisted together with the market economy. *Loncalar* (guilds), state-owned farmlands, *İltizam* system repressing local rights and demands, were the extractive economic and political institutions in the traditional structure. The main difference between the early-capitalized countries and the Ottoman state arises from the institutional structure that promoted industrialization and trade. Extractive economic and political institutions and political elite had been barriers in front of experiencing a historical process that would create a virtuous cycle (Acemoğlu & Robinson, 2018, p.408) during the Tanzimat Reform Era.

The regulations in Tanzimat reforms caused an economic transformation that realized the Ottoman financial integration with the European economy. The first alteration of economic field was the introduction of *kaime* (paper-money) in 1839 which was followed by the adoption of a bimetallic decimal standard in 1844, and the establishment of a foreign currency regulating agency, the Banque de Constantinople in 1845 (Eldem,2005, p.434). The financial reforms implemented during this period were the result of the need for regulatory institutions in the money market.

In the second half of the 19th century when the centers of foreign trade chambers were moved to Istanbul, European-style budgeting techniques began to be used. When foreign borrowing was started in 1854, an economic surplus (Pamuk, 2005a) that was not known in the previous centuries was also created. When the increase in the price-wage series of the Ottoman cities during the 500-year period is analyzed, the 19th century comes to be considered as the growth century of the Ottoman economy (Pamuk,2005b, p.40).

The relatively stronger central state and bureaucracy and petty commodity production in agriculture, have been two main characteristics that distinguished the 19th century Ottoman economy from other economies (Pamuk, 2005a, p.160). The integration of Ottoman economy into the world economy accelerated with the production of agricultural commodities exported to European economy.

The capital accumulation in 19th century Ottoman economy was a process of converting agricultural surplus into the interest earned by European finance capital (Keyder, 2003, p.57). The integration of the Ottoman economy into the world economy had happened through the legal and institutional arrangements that determined the transition to capitalism process. Treaty of Baltalimanı (1838) which made the Ottoman economy a market open to international trade, and Edict of Reform (1839) which formed the basic principles of European Public Law enabling formation of property rights had accelerated Ottoman integration with world economy (Kazgan,1999, p.21). Within the scope of the principle of equality of citizens in the Rescript of Gülhane and Edict of Reform, it was aimed to make the public's stand next to the state against local gentry, and on the other hand, also it was aimed to prevent Europe from interfering into internal affairs of Ottoman state. On the other way that politics in some way resulted in enrichment of bureaucracy and central government throughout the period (Heper, 1985, pp.84-85).

It was the petty commodity mode of production, which constituted the original character of the 19th century Ottoman economy. Whereas the Treaty of Baltalimanı regulated the mode of production that turned the Ottoman economy into an open market for European countries (Pamuk, 2005a, p.153), local community protected the Ottoman Empire from direct colonization. The local merchant class protected Istanbul from direct colonization. Traders established sovereignty over independent producers and the dominance of merchants over small producers delayed the transition to capitalism (Keyder,2003). *Kapan* merchants, an important part of traders in Istanbul, had been rather important in the Ottoman economy in terms of urban economy and provisionalism. Kapan merchants, who were an organized group of private but state-licensed traders charged with provisioning Istanbul from the Black Sea region, regulated European trade (Zarinebaf,2018, pp.159, 167). Kapan merchants who were mostly Muslims although among them were some Greeks, acted like a regulated company because they had to obtain licenses from the government and had their own guilds and rules (Zarinebaf,2018, pp.165-166). While commercial partnerships in the West were transformed into joint-stock companies, there was no such development in the Ottoman Empire (Zarinebaf,2018, p.171). The reasons for this historical development cannot be explained without analyzing the state's relationship with traders.

Pre-Tanzimat economic institutions maintained their existence in conjunction with the new political and economic institutions created by political and administrative reforms. The liberal reforms of the Tanzimat, Westernizing reforms, led to a dualism in the Ottoman state and society. The common characteristics of all these changes were a dualism and a conflict between secular western institutions imposed or supported from above by bureaucrats and traditional institutions supported largely by the masses of Ottoman people (Inalcık, 1998, pp.7-8). Throughout the 19th century, Ottoman bureaucracy has strengthened its financial structure thanks to the economic and administrative institutions that were established after Tanzimat reforms in both public and private sectors. The bureaucracy, as a social group who would be able to make radical reforms during the Tanzimat Period, was eager to implement the reforms aiming to strengthen the central state such as complete elimination of local gentry by the central state and, centralizing the financial system (Heper, 1985, p.79). The developments enhanced the power of the bureaucracy in the Ottoman economy were to expand taxable areas and increase tax revenues to strengthen the center (Dinler, 2003).

Public policy resulted in "fiscalism trap" had been a policy choice regulating the Ottoman economy throughout the period. The policy which transferred all resources to the central state ultimately caused to excessive tax burdens and instability of the financial organization (Cezar, 1986, pp.308-309). The desire to maintain its relative strength led Ottoman State to force bureaucracy to follow this public policy. During the Tanzimat Reform Era (1826-1908), the increase in public expenses which appeared due to

both defense expenses in the transition to the modern army and administrative expenditures had played a significant role in the state's approach to reform in the tax system. Ottoman fiscal consolidation was ensured through the adoption of modern military techniques and modes of administrative organization and other new technologies such as railroads, which helped to reduce the large shares of the intermediaries in the tax collection process (Karaman &Pamuk, 2010, p.598). On the other hand, in Ottoman economy, the effects of revenue losses of previous periods had continued in the 19th century. During the eighteen century whereas the tax revenues were increased in most of the European states, the budget deficits occurred in the Ottoman economy and this fact accelerated the reforms towards the formation of new institutions. Until World War I, the centralizing reforms led to large increases in the revenues of the central administration and this grand rise in revenues during the nineteenth century in many ways reflected an attempt at catching up for the Ottoman central administration (Karaman &Pamuk, 2010, p.622).

Although the *iltizam* (tax farming) system applied again in the nineteen century reduced the authorization that strengthened the local gentry, all of the tax revenues were not entered into the treasury (Ergüder, Özer, & Özcan, 2020). During the Tanzimat Reform Era, authority for taxation assigned to *mültezim* (tax farmers) meant the privatization of tax collection (Ergüder et al., 2020) and, especially in the borrowing policy, similar fiscal policies had applied which accelerated the privatization. The establishment of the *Rüsum-u Sitte* (the VI Revenues Administration) and the Ottoman Public Debt Administration (OPDA) in the Ottoman economy meant that the obligation authority was taken from the state and left to international and local commissions, and it was privatized.

The foreign debts, the founding of the Imperial Ottoman Bank, the crisis of 1875, the establishment of OPDA, all these stages are parts of the monetarization and commercialization process (Toprak,1999, p.179). Throughout 1854-1876, high interest rate borrowing which was mediated by first Galata Bankers and then Istanbul-based banks, had been become mechanism that generated demand for European industrial production. 19th century Ottoman Empire had an economic growth model based on the sustainability of borrowing which was necessary for financing increased current and defense expenditures. External borrowing applied due to the chronic budget deficit problem was the development that accelerated the integration of the Ottoman economy into the world economy. Ottoman economy in consequence of developments in 19th century was transformed into a debt economy which integrated into the capitalist global economy by borrowing so largely.

In many studies on globalization, the concept of the borrowing has been examined in the context of the theory of financial imperialism (Blaisdell, 1979; Morawitz 1978). The establishment of OPDA caused radical changes that took place in financial relations between Europe and Ottoman Empire. A grand flow of European capital started to penetrate into the Ottoman market at an increasing rate in ways that entailed a greater control over some crucial sectors of the economy such as railroads and mining (Eldem,2005, p.443). Historical process enabling international capital to establish unilateral control in the Ottoman financial system rests upon the developments in the integration process of the Ottoman economy into global capitalist system.

THE GREAT EASTERN CRISIS OF 1875 AND THE ESTABLISHMENT OF THE OPDA

The Great Eastern Crisis of 1875, the financial crisis that disrupted the Ottoman economy through external borrowing, led to the formation of new institutions. The establishment of the OPDA is seen as the intervention of international capital to Ottoman economy after the crisis period. After the crisis a new era began; short-term borrowing to the Treasury came to an end and financial control was transferred to the institutions of international capital. OPDA, in favor of and worked for foreign entrepreneurs, was a management and association that they could trust completely (Blaisdell,1979). Ottoman external debts had been restructured at the end of the 19th century thanks to the establishment of the OPDA. All the debts were merged by the OPDA except the debts of 1854, 1855, 1871 and 1877 in which the taxes from Egyptian provinces were indemnity of liability. For the liabilities due pay but not paid loans before 1881, *Ramazan* bonds that introduced at increased price of issue interest rate up to 10% and reduced average price of issue, it made the companies to start to get Ottoman bonds. Thus, companies aimed at rapidly earned income by creating low prices in the public offering. *Rumeli* Railways debt securities of which prices were raised at 10% has been also released to the market by the OPDA management (Yeniay,1964, p.66).

The developments led to the foundation of OPDA was the outcome of the political economy that caused structural deficit in the post-crisis era. When 1874-1875 budget is analyzed, it is seen that even the tithe tax, which was the most important source of government revenues couldn't be collected, and the preference to external borrowing caused budget deficits. By looking at the crisis period this situation can be seen quite clearly: the budget revenues of 1874-75 were 22 million, foreign debt servicing was 200 million, and annual debt payments were £ 12 million. When stopped debt payments in 1875, over the period of 1875-1880 the Sublime Porte preferred to pay the half of the debit interest in cash and the other half with fix rate bonds (at 5% interest rate). With the decrees and communiqués issued during October 1875, important government revenues such as taxes from Egyptian provinces, customs duty, salt and Tobacco Regié revenues were the guarantees for the payment of debts. In the period between two decrees (1875 -1881), a process had been experienced which opened the way for the creditor states' financial control owing to decrees issued to exit the economic crisis.

In the political environment in which the Russian War was experienced, Britain offered the Ottoman government to merge the debts by reducing the debt interest rates and to make a new borrowing agreement (Yeniay,1964, p.58). In 1877 the idea of the financial control on Ottoman economy came to the agenda with the idea of international financial audit which authorizes bondholders on the government revenues. According to the articles of the agreement in Berlin Conference, although this debate postponed by the objections of another creditor state, France, it had been stated that not only the bondholders but also the states would be entitled in the financial audit regarding the payment and management of Ottoman debts. While the Sublime Porte was under some obligations in the Congress of Berlin (1878) regarding the payment of public debts, it allocated some of the Eastern *Rumeli* revenues to the payment of debts and it got into a debt amounts £ 9 million for defense expenditures. The demand of the creditor countries, England and France, to classify debt and, the Russo-Turkish War (The Crimean War) were the developments that prevented to reach an agreement on a payment planning before the Congress of Berlin.

At the Congress of Berlin in 1878, European leaders decided to establish a commission consisting of experts who would be appointed by French, British and Italian delegates in Istanbul. At the Congress, Ottoman debts were distributed among the states that declared their independences, and the debts were securitized due to the right of priority given to the bondholders. When the Commission recommended

a committee, to the extent allowed by the Turkish finances, that would work on the bondholders' complaints to examine and to prepare effective proposals to meet these demands, it was rejected by the Ottoman government.

The VI Revenues Administration (Rüsum-u Sitte İdaresi) founded by Ottoman Bank and Galata Bankers collected Eastern Rumelia tax, Bulgarian tax and Cyprus island revenues in addition to six indirect taxes and, used these revenues for paying the short-term loans. The VI Revenues Administration was protested by the European financial network because its financial audit request for the payment of external debts was ignored. The VI Revenues Administration, Ottoman Bank and Galata Bankers were seen as a cartel by the European states that insisted to establish a commission to secure their receivables after 1875 crisis, controlled both the important government sources and was authorized for payments of only domestic debts (Eldem,1999, p.155). In fact, the foundational purpose of the VI Revenues Administration was to fulfill the wishes of foreign creditors and on the other hand to prevent the direct intervention of Europe on Ottoman finances and to protect the rights of Galata Bankers (Blaisdell,1979).

Although the Ottoman government acted without any discrimination between domestic borrowing and external borrowing notedly, 1854, 1855 and 1871 debts continued to be seen as prioritized.

The principal amount of Ottoman debts had been consolidated from £ 215,600,000 to £ 128,600,000, and interest payments had been reduced from £13,600,000 to £12,700,000. Thanks to an accomplished process of consolidation, the total short-term debts that Galata Bankers were the creditors and mediated by Ottoman Bank reduced with total of 45% (Gürsoy,1984, p.38).

A new financial audit approach had been brought about by the establishment of the OPDA. A substantial part of the Ottoman state revenues was collected successfully by the VI Revenues Administration, the sources of income of it were transferred to the international financial control institution, OPDA, by the Muharram Decree (Blaisdell,1979). All of the articles of the Muharram Decree can be examined in 3 groups. When articles in the Muharram Decree are categorized in the first group, we see the reduction and consolidation of domestic and foreign debts consisted, in the second group the consolidated debts, and in the last group there appears the organization of OPDA and the regulation of its relations with the government. With the Muharram Decree, foreign debts had been swapped with new debts which had low value in the European bond market, and the debt amount had been reduced by 56%. In the payment schedule debt bonds were divided into 4 groups according to the degree of trust: A Series were debts of 1858 and 1862, B Series were debts of 1860,1863,1864, 1874, C Series were debts of 1865,1873, and D Series were debts of OPDA Bonds and lottery bonds. Another feature of OPDA was that it formed a new financial control mechanism which provided the stabilization of the Ottoman currency as a solution against the exchange rate instability experienced in the 1880-1896 period. With the convention on April 30, 1890, it had been desired to convert and unify certain series of premium bonds, classified as Series B, C and D (including the 'Lots Turcs' railways bonds issued in 1873), reducing their interest yield from 5% to 4%. This new regime was highly controversial, sparking protests from some of the major bondholders, creating contretemps that were to highly effect the OPDA's business for much of the next two years (Johnson,2019, p.81). An aggregate nominal value of unification of the Series B, C and D bonds hold TL 83,910,441. In an important document of OPDA regarding the Unification of the Series B, C and D Bonds, after a detailed explanation of the restructuring process and methodology of calculations, as well as a discussion of the advantages and disadvantages of the changes, there are charts of projected annual amortization rates for the bonds for the next fifty years, extending all the way to the fiscal year of 1943-44 (Johnson,2019,p.86). In this document, it is clearly seen that the bondholders and international finance capital approached to the borrowing phenomenon in a much longer-term process.

OPDA had the right to collect, manage and allocate government revenues that constituted the basis of the 1879 settlement and a number of other revenues, in that way about one fifth of the government revenues would be ceded to the administration until the complete settlement of the outstanding debt (Eldem,2005, p.442). OPDA had been seen as "state within state", as Ottoman government lost its sovereign rights over revenues and accepted the unconditional control of foreign representatives. Therefore, the financial integration of Ottoman economy with global capitalist economy was formed in a very different way from what had been the initial hopes of the government from the mid-1850s to the1870s (Eldem,2005). The budget revenues of OPDA, which had an autonomous budget, had 22 million Ottoman lira in 1874-75, 26 million Ottoman lira in 1910-1911 and 25 million Ottoman lira in 1923 (Blaisdell,1979, p.111-112). Even if this budget was eventually transferred to the Ottoman budget and subjected to the same type of budgetary control, OPDA was seen as the "state within the state" due to its revenues assigned to a board of directors that foreigners were in majority (Gürsoy,1984, p.21). Although article 21 brought a diplomatic dimension to the Muharram Decree, it nevertheless remained as a private arrangement between bondholders and government because of its nature without any concrete transformation into a more official one which might have included diplomatic and political sanctions (Eldem, 2005, p.442). OPDA, the effective institution of European capital in the management of debt, had been working as a guarantor institution that focused on the financing problems of European bondholders.

According to the Muharram Decree, the OPDA Council had the authority of collecting, managing and storing the income obtained from the sources of income reserved for bondholders. According to the Muharram Decree, it was provided that four fifths of the income from sources administered by the Council that would be destined to payment of interest, while the remaining one fifth would go to depreciation of the debt. Indeed, international creditors directly benefited from OPDA's revenue growth. In that way, it constituted a mechanism which effectively removed any incentive for the Sublime Porte to strive for a more profitable performance of income sources, since would produce no direct benefits for Istanbul (Conte &Sabatini, 2014, p.82).

OPDA had established organizations which collected a considerable part of taxes, employed well-educated staff, trained them in this organizations, and it encouraged competition in collecting taxes. OPDA made positive contributions to Ottoman finances by improving tax collection and collection methods (Gürsoy, 1984, p.46). The Council's sources of income were the salt and tobacco monopolies, the stamp duty, the spirit tax, fishing incomes in the Constantinople region, and the silk tithes in four provinces. OPDA had increased its revenues by improving new techniques in taxing of six income sources that previously were being collected by the state.

In 1914, under Council management, the revenue of the salt monopoly by rising to 1 million 103 thousand 23 lira, reached an income increase of 26%. From 1880 to 1910 silk production increased from 200,000 lira to 2.8 million lira due to the new techniques in silk production applied by the Council. Under the Council management, the silk tithes incomes in four provinces, Istanbul, Edirne, Bursa and Samsun, had increased from 20,000 liras to 200,000 gold liras. Supporting alcohol factories to renew their technologies and reducing the high transaction tax on domestic manufacturing, OPDA achieved a 38% increase in revenues that excise on spirits (Gürsoy, 1984, p.40-42).

Tobacco Regime (The Régie) which established by creditor countries collected the tobacco incomes for 40 years, transferred it to OPDA after allocating her income to the payment of public debts. The Régie, a leading institution throughout the Ottoman Empire, was the world's largest tobacco enterprise, accounted for an average of 23% of all foreign direct investment in the country between 1884 and 1914. Before the establishment of the OPDA, Régi revenues were on average 35% of the annual income of the

VI Revenues Administration. In 1884, a consortium syndicate with floating capital of TL 4.4 million in foundational capital was assembled; this group consisted of the Imperial Ottoman Bank controlling 73.75%, Credit-Anstalt of Vienna controlling 13.75%, and the Bankhaus Bleichröder of Berlin controlling 11.5%(Johnson, 2019, p.159-160). The Regié shared most of its revenues with the Sublime Porte, which played an important role in increasing tobacco revenues:

As the success of the tobacco monopoly largely depended on Ottoman officials enforcing anti-fraud and anti-smuggling regimes, it was decided that the Sublime Porte would be given a major incentive to enthusiastically support the endeavor, such that their percentage cut would increase along with the size of the tobacco monopoly's annual net profits. The OPDA would relinquish Regié to the Imperial Ottoman Bank-led syndicate in return for an annual payment of TL 750,000 and if the Regié reported an annual net profit of between TL 1 and TL 500,000, then the OPDA would be given 35%; the tobacco monopoly 35% and the Ottoman Government 30%. However, if of net profits fell between TL 1 million and 1.5 million, the Sublime Porte would receive a 52% cut of the revenues within the highest bracket, while the OPDA would get 30% and the tobacco monopoly only 18% (Johnson, 2019, p.162).

OPDA and Gentlemanly Capitalism

OPDA that used income sources aimed at Ottoman borrowing most efficiently, is one of the mechanisms of the expansionism of international capital in the Ottoman economy. OPDA which directly managed part of state revenue was a case for the concept of 'gentlemanly capitalism' which it was believed constituted the main dynamics in British overseas expansion (Cassis,2006, p.141).The Ottoman state has never been a direct colony of a country but benefited from competition between states due to pursuing a pragmatic economic policy (Pamuk,2005b). The conflicting interests of the imperialist states in the Council had prevented the OPDA from being a part of British overseas expansion directly.

The analysis of the institutional structure of the OPDA, will confirm the thesis of the financial imperialism regarding the institution due to that Council members were among the leading states in the age of Imperialism.[3] It is noteworthy that the members of the council are appointed with the unofficial approval of their states. The members attend to the council after having served in official services of their government. When OPDA's organizational structure was examined, it can be seen that delegates were willing to protect international capital's interests in the Ottoman economy. In the council, besides the responsibilities of the delegates to the Ottoman Bank and Deutsche Bank, there were delegates who also were the board members of railway partnerships withal. During the period of foundation of OPDA, for the first five years, the Presidency was solely granted to French or British members (Blaisdell,1979, p.213). The Ottoman Bank had always appointed the member representing the priority of bondholders. The influence of England and France was very strong in the institution (Blaisdell,1979, p.91). In this period, fundamental principles of French foreign policy were directly determined the role which Ottoman Bank played in the institution. Protecting the economic and financial interests of French citizens directly via state and not to take loan from any countries were the principles of French policy. Payment of bond debts of French citizens meant a modern conquest of the debtor states in peaceful ways (Blaisdell,1979, p.195-197).

There were other developments supporting the thesis of financial imperialism in the relationship of the OPDA with the government. The inspectors and auditors appointed by the government did not have the right to intervene the internal affairs of the Council which had the right to lease its income

sources (Blaisdell,1979, p.92). According to the Muharram Decree, even if this agreement and thereby the OPDA was completely eliminated, the bondholders would not lose their entitlements on receivables which were not yet paid.

According to Blaisdell, OPDA has a complex structure between formal and private financial audit. What makes OPDA unique is that it is a special financial auditing institution that includes international elements (Blaisdell,1979, p.98). OPDA is the institution under the auspices of the European states according to Morawitz and Du Velay (Blaisdell,1979, p.99). When monitored OPDA's the rest fields of activity, it will not be difficult to adopt Blaisdell's approach. OPDA that restructured the export-oriented sectors of the Ottoman economy, played a crucial role in the construction of railways in the 1890s, and boosted the external trade of the Empire. It can be argued that the payment made by the government for the kilometric guarantees outweighed the increases in tax revenues; therefore, it is quite obvious that the treasury did benefit from these investments in economic terms. On the other hand, looking at the data provided by Eldem from 1889–1914, reveals that the railway system brought an increase of Ps 254.51 million in taxes collected by the government, Ps 60.16 million above the payments made to the Anatolian Railway company (Birdal,2010, p.2).

In the period of 1888-1907 the payment schedule made by the government for the kilometric guarantees of the major railway projects were made by the government over Council. The involvement of the administration to the railway projects secured foreign investments to a large degree, minimized their risks and enabled them to enjoy large profits (Birdal, 2010, p.100). European capitalists had been able to safely realize the railway construction which was a profitable investment area, thanks to the protectionist and cooperative attitude of OPDA. On the other hand, Ottoman provinces integrated into the world economy thanks to the railway investments. This cooperation protected the interests related to trade and defense and collected tax revenues on behalf of the government. In addition, it realized the expectations of bondholders to pay their debts due to the increase in government income.

OPDA was in a very productive period between 1903-1914 thanks to converting and unifying key series of premium bonds in 1903 besides the increase in the tax revenues due to the railroad investments. Unification of debts, issuing new bonds and the increase in bond prices made OPDA a strong institution with regards to its income sources. In this period, 22% of group A bonds were paid.

Another development that extends the financial tutelage of the OPDA is that it is served as a major determinant of the Ottoman customs regime. The organization was accepted as the representative of European countries in Ottoman Empire, when it had the right to collect of additional customs duties after 1907 and to regulate customs tariffs (Blaisdell,1979, p.214). With the trade agreement signed on April 25, 1907, the tax rate on imported goods rose from 8% to 11%. According to this agreement, the gained income due to the increase in the tax rate would be allocated to the budgets of the Macedonia provinces (Thessaloniki, Kosovo, Monastery) by the government. 75% of the customs tax income would be transferred to the Treasury and, 3% additional tax would be collected by the OPDA and deposited in provincial customs counter. When the income that was allocated by the government to the cities of Macedonia (Kosovo, Thessaloniki and Monastir) exceeded 250 thousand Ottoman liras, it would be managed by the OPDA. As a result, in consequence of 1907 Trade Agreement the power of the members in the Council increased, and OPDA started to become having power of sanctions in the customs regime.

According to Article 7 of the Muharram Decree, the amount exceeding the share of the customs revenue (25%) allocated to the Treasury and the management of this share left to the control of OPDA. Article 16 which was about the management of customs revenues provided the power of sanction to OPDA in the field of custom regime. In this case, OPDA started to appear as the representative of the

European states. While the government aimed to obtain income to borrow new loans, OPDA aimed to protect the interests of European capital invested in Ottoman economy (Blaisdell,1979). Continuation of this situation annihilated the diplomatic nature of the Muharram Decree and it was conceded the mission of fulfilling the demands of European states by the Council. On the other hand, the abolition of capitulations preventing the transition to a new customs regime provided the transition to ad valorem tariff in tax system. During 1907-1915, customs tax was collected by the council, and in 1916, with the transition to ad valorem tariff, half of the customs tax revenues were managed by the Council. Tariff rate increased at reaching 15% in the period from 1907 to 1914 (Blaisdell,1979).

To establish monopoly with tobacco regime, collect the tithe tax, regulate the customs tax tariff, managing source of incomes and taxes of the states leaving the Empire led to the increase the OPDA's intervention of it on the economy. OPDA should be considered as one of the institutions established by the finance imperialism due to its location in the international financial network investing in the Ottoman economy.

Besides effective working of its staff, OPDA had increased tax revenues collection due to its relationship with financial groups investing urban infrastructure in Istanbul. OPDA had rather interfered into the Ottoman economy due to broad authority and income sources of its. From 1886 to 1914, the Ottoman government would eventually borrow totaling over 150 million pounds at an average issue rate over 85%, and an average rate of barely more than 4% interest and, that process was seen as the achievement of the institution (Eldem,2005, p.443).

In the first year of the First World War, the revenue management of 14 million in the Ottoman budget belonged to OPDA while only just 20 million revenue management was being controlled by the government (Toprak,1980, p.209). OPDA, which has tried to issue paper money twice, has launched the function of being a bank of issue fulfilled by the Ottoman Bank before the War by launching the gold coinage. The institution financed emissions by taking loans totally 150 million from Berlin and Vienna (Toprak,1980, p.215). During the war years, the government closed the budget deficit thanks to German treasury bills, issued seven series of banknote called *Evrak-ı Nakdiye* valued approximately 161 million liras (Toprak,1980:217). During the First World War period, OPDA paid the debt of the citizens of the allied states. In the year of 1918, valued 700 thousand Ottoman liras of unified debt, compensation for Tripoli's war expenses were paid (Blaisdell,1979). When the First World War began, the international financial audit function of the OPDA in Ottoman external borrowing ended. Following the acceptance of the Lausanne Treaty and the start of the War of Independence, the functions of the institution were completely terminated when the OPDA's revenues were taken over by the government.

OPDA which used the emission privilege granted to Ottoman Bank during the war years when German capital dominated the Ottoman economy, became a fiscal tutelage institution. The institution, which borrowed debt together with the Ottoman Bank for financing the war in 1918, had managed the first government domestic borrowing of the Ottoman economy (Toprak,1980, p.220).

THE POST-MODERN *DUYUN-U UMUMIYE* IN THE NEOLIBERAL GLOBALIZATION PERIOD

The role of institutions regulating the relations of state with capital cannot be ignored during the era of Neoliberal Globalization. According to Evans's (1995) concept of the embedded autonomy, the state should attain a position that is embedded in, but autonomous from, the capital at the same time. On

the one hand, the state should take measures to protect capital from international competition and on the other hand should prevent all attempts to cause incomplete competition in the market (Oğuz, 2011, p.6). It is possible to consider two developments revealed the embedded autonomy on the borrowing relations in the economy of Turkey. According to Yalman (2019), the first of these, is the government which continued to function as an asymmetric risk holder for the corporate sector. The increase in public debt and the use of incentive mechanisms ranging from several subsidy and bailing-out schemes, to a series of tax policy changes that were indicative of a transfer of resources to the corporate sector has been implemented (Yalman, 2019, p.69). Another development has been rather rapidly growing private debt than public debts in Turkey's economy. The General Directorate of Borrowing is aimed to be a governmental institution that functions to protect and audit debtors in private sector as well as public sector. The reason for founding General Directorate of Borrowing is seen as the result of the "embedded autonomy" which determines the relationship between corporates and the government.

The effects of 2001 crisis on economy, especially the increasing foreign debt of the companies, has an impact on the establishment of the General Directorate of Borrowing. In the post-2001 crisis period, the financial fragility was co-occurred by the contraction in traditional sectors in the dominance of speculative financing (Yeldan &Ünüvar, 2016, p. 20). Throughout post- crisis period, it is observed that especially private companies continued the increasing foreign currency borrowing trend. According to WB Report corporate vulnerabilities of Turkey remain high and sensitive to further demand and interest rate shocks and two thirds of corporate debt is denominated in foreign currency. In accordance with the concept of embedded autonomy more than 80% of these foreign currency loans belong to larger corporates that are hedged through exports and other mechanisms. In addition, currency volatility contributes to exchange rate risk through operational and other costs (WB,2019, p.10). Increased operational and other costs of corporates which contribute the currency risk obligate states to intervene on economy for the sustainability of the corporate borrowing. Legal and institutional arrangements had played an important role in overcoming 2001 crisis, further than the economic packages prepared by the state (Ergüder,2016, p.29). The tight fiscal policy applied with a target of fiscal discipline has affected the public sector's indebtedness (Günay, 2007, p. 41). It is aimed to prevent the crisis of the construction sector, through applying the low interest rate policy after the 2008 financial crisis (Akçay &Güngen, 2014, p.193).

Turkish experience on financialization emerges the as blurring of the boundaries between financial and non-financial corporations (Yalman, 2019, p.61). In the era of neoliberal globalization in the developing countries the budget deficit and the increasing indebtedness of companies are resulted in financial crisis. The World Bank report published in December 2019, emphasized that the debts of emerging economies in 2018 rose to 55 trillion dollars, that is, 170% of the world GDP. The total debt level of emerging economies increased 54% in eight years (Bloomberg HT, December 20, 2019).

In 2018, Turkey experienced a break on construction and borrowing centered growth strategy applied by the period of 2008-2013 in the economy. According to World Bank report there were concerns in August 2018 over foreign investors' desires to refinance Turkey's, especially private external debt, with close to $130 billion falling due in the 12 months from August 2018. Credit default swap rates and short-term bond yields in Turkey peaked over this period. It was claimed that Turkey would face a precipitous external financing gap (WB,2019, p.14). It is stated that in Turkey, despite some signs of deleveraging, corporate debt burden remains high. Total credit to corporates as a share of GDP in Turkey has declined from a peak of 72% in September 2018 to 68% in June 2019. However, the overall corporate debt burden in Turkey remains pretty large compared to other emerging economies (WB,2019, p.35). In 2018, it is

gravitated towards financing of the budget deficit by foreign debt caused an increase in the public debt burden due to the exchange rate, but also led to a reduce the pressure on debt markets (WB, 2019, p.47).

In Turkey's economy, borrowing authority was delegated to a single institution, General Directorate of Public Finance, by the 4749 law that restructured the public debt. In consequence of the regulation made in September 2019, domestic and foreign borrowing powers were combined and, obligation authority was transferred from the General Directorate of Public Finance to the General Directorate of Borrowing (GDB). The General Directorate of Borrowing has the power to issue the government bonds, treasury bills and other domestic debt securities, to set their values and interest rates, to carry out their sales through methods such as contracting out, permanent sales and other. A ministry official who gave information to Reuters defined the arrangement as "a change of organizational that merge of internal and external borrowing units currently situated in two different general directorates" (Aydoğan, 2019). When focused on the duties of the General Directorate, in many respects GDB is similar to OPDA, which had collapsed in the Ottoman economy in the previous century. As a patron of bond receivables, OPDA had the right to collect, manage and pay approximately 20% of the revenues in the state budget, which was left to itself, in return for borrowing. The General Directorate, in a manner similar to OPDA, on behalf of the Republic of Turkey will borrow from the international capital markets, as debtor and guarantor via bonds and similar instruments.

While OPDA had the ability to give kilometric guarantees for foreign railway investments, to convert and unify certain series of premiums bonds, the General Directorate has the authority to make all kinds of transactions by using the financing and derivative instruments available in financial markets. The General Directorate in cooperation with other relevant ministry units will contribute to the determination of loan products, policies, principles and strategies of borrowing and the preparation of borrowing programs. Besides, it reveals with its commitment that it will carry out all kinds of relations with investors and credit rating agencies regarding the activities within the scope of the General Directorate (Official newspaper, 2019).

The respective departments of the General Directorate of Borrowing are in Istanbul and this fact is a part of the Istanbul International Financial Center Project, in just the same way as the Central Bank moved to Istanbul. Similar to the examples in the world, different departments related to borrowing are merged under the general directorate and it became the single authorized institution which is responsible for domestic and foreign borrowing. Contrary to the examples of the General Directorates of Borrowing in the world, in Turkey the general directorate is being moved from Ankara to Istanbul (TEPAV, 2019:6). Istanbul within the scope of the international financial center project will be able to offer low costs accelerating international capital accumulation thanks to its arbitration center and transportation of the Central Bank to the city. Istanbul, a city where the cost of doing business is low in the 21st century, begins to be the urban space just like in the 19th century.

According to Treasury's debt service projection, the average monthly repayment of debt by 2020 will reach $ 27 billion, twice the 2018 average and approximately 50% of the 2019 average (TEPAV, 2019, p.7). When evaluated on the basis of the borrower, the ratio of public debt to the net debt stock is 18.3%, the share of the Central Bank is 3.8% and the share of the private sector has 77.9% (Bloomberg HT, December 17,2019).

CONCLUSION

The emergence of independent institutions in the service of state intervention to the economy is experienced after the creative destructions that took place in certain historical periods. Similarities between the borrowing institutions of the neoliberal period and the financial audit institutions of the first period of globalization should be explained in the context of the logic of capitalism. The concepts of debt and debt economies have been analyzed in the context of the theory of financial imperialism in many studies on globalization. The Ottoman Public Debt Administration (OPDA) played a significant role in radical changes which led to the transition to capitalism. The institution established unilateral control over the financial system in the integration process of the Ottoman economy into global capitalist system.

The Ottoman Public Debt Administration (OPDA) and the General Directorate of Borrowing, also known as the postmodern OPDA, are comparable, although they belong to different historical periods. Institutions, both established during periods of globalization, have very similar characteristics in terms of their roles on the state intervention in the economy and their impact on the world economy in terms of the dynamics of internationalization. Ottoman Public Debt Administration (OPDA) was one of the institutions that would regulate commercialization and monetarization in the state intervention to the economy in the 19th century Ottoman economy. The Ottoman state intervention in the economy increased the influence of its regulatory institutions due to economic and political structure of the Ottoman Empire. While the creative destruction of the 19th century Ottoman economy took place with *Tanzimat* reforms, another factor affecting the state intervention in the economy was the developments in the world economy. OPDA established after the Great Eastern Crisis of 1875 as a result of the concept of gentlemanly capitalism, which was effective throughout the period, was one of the two important institutions together with the Ottoman Bank in the financial integration of the Ottoman economy into the world economy. OPDA which had an autonomous budget worked effectively as a guarantor institution that focused on the financing problems of European bondholders. Although the foreign creditors directly benefited from OPDA's revenue growth, OPDA made positive contributions to Ottoman finances by improving tax collection and collection methods thanks to employed well-educated staff. OPDA gained rather power to interfere into the Ottoman economy in consequence of the relationship with financial groups investing railways, mining and, urban infrastructure. The involvement of the Ottoman Public Debt Administration (OPDA) to the railway projects secured foreign investments to a large degree and enabled them to enjoy large profits by minimizing their risks. In addition, OPDA's control over the government revenues in order to manage Ottoman debt in the most efficiently way has been one of the mechanisms of the expansionism of international capital in the Ottoman economy. OPDA's delegates were willing to protect international capital's interests on the Ottoman economy and the inspectors and auditors appointed by the government did not have the right to intervene the internal affairs of the Council of OPDA. OPDA has increased its power on Ottoman economy since having the right to collect of additional customs duties. Thus, OPDA started to be seen as the representative of European countries in the Ottoman Empire.

Why General Directorate of Borrowing is called as post-modern *Düyun-u Umumiye* (OPDA) should be explained by the transformation of the state effected by the creative destruction of the world economy after the 2008 crisis. After the 2008 crisis, the government aimed to prevent the crisis of the construction sector through applying the low interest rate policy. After financial crisis which experienced in 2018, it is aimed to transfer the borrowing authority to single institution to sustain the growth regime. The General Directorate of Borrowing has common features with OPDA such as borrowing authority, its relation with international capital markets and the financial transactions it manages. OPDA had the ability to convert

and unify certain series of premiums bonds. The General Directorate of Borrowing, on the other hand, has the authority to make all kinds of transactions by using the financing and derivative instruments available in financial markets. Another common feature of the Ottoman Public Debt Administration with the General Directorate of Borrowing is that both were established in Istanbul. Within the scope of the international financial center project, Istanbul will be able to offer low costs that accelerate the accumulation of international capital. It is observed that the state in the 21st century is embedded in the finance capital but independent of it, making it more sensitive to the demands of international capital. The transformation of the state intervention during both periods of globalization make international capital a current issue for the states thanks to the duties of the state to protect the international finance capital.

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ENDNOTES

[1] In 18 highly industrialized countries of the last quarter of the 19th century, the ratio of public expenditures to GDP was 10.5% in 1870 and 11.9% in 1913 (Kazgan, 2005, p.21).

[2] According to the GDP figures provided by Vedat Eldem the gross domestic product showed a yearly increase in real terms of approximately 2% between 1889-1911 (Toprak, 1999, p.178).

[3] Among members of the OPDA council were, one delegate representing British and Dutch bondholders, one delegate representing the partnership of French banks, one delegate to be appointed from German and Austrian bank partners, one member representing Italian bondholders and to be appointed by the Rome Chamber of Commerce.The other members were one member who is appointed from the General Assembly with the call of the Istanbul Municipality and one member who is appointed by Ottoman Bank who will represent the priority bondholders (Blaisdell,1979).

Chapter 35
Corruption and Public Sector Borrowing in EU Transition Economies:
A Panel Causality Analysis

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ABSTRACT

Corruption can be expressed as the abuse of public power for specific purposes and goals. The corruption in the public sector occurs as a result of state employees acting upon the private interests rather than public interest. The public borrowing policy is important for ensuring and maintaining the economic stability in a country. The high level of public borrowing is one of the important factors leading macroeconomic instability. Many institutional, economic, social, and political factors have been revealed as the determinants of public sector borrowing level. In this study, the causality relationship between corruption and public debt in 11 EU transition economies for the period of 2002-2017 was analyzed through causality tests of Kónya and Dumitrescu and Hurlin. Kónya panel bootstrap causality test revealed a one-way causality from public debt borrowing to corruption Croatia, Czechia, Hungary, Romania, and Slovenia and a one-way causality from corruption to public debt borrowing in Bulgaria, Estonia, Lithuania, Poland, Slovakia, and Slovenia. The Dumitrescu and Hurlin causality test discovered a bidirectional causality relationship between public debt borrowing and corruption.

INTRODUCTION

The corruption can be briefly defined as the abuse of public power for specific purposes and goals (Tanzi & Davoodi, 1997; Gray & Kaufman, 1998). The corruption can be existed for both public sector and private sector. But corruption can be more seen in the public sector. In this context, Klitgaard (1988) see the managers, who play an active role in the decision-making processes in resource allocation, abuse their duties and powers, and also take positions solely for their own interests, away from accountability,

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in the public sector as the source of corruption. The corruption does not only consist of taking bribes or transferring money to embezzlement, but also includes different actions such as fraud and bribery (Klitgaard, 1988). Furthermore, a negative relationship between corruption and transparency may be existed (Gray and Kaufman, 1998). The corruption level in a country emerges depending on discretionary power, accountability and monopoly power (Klitgaard, 1988). The corruption, is one of the institutional determinants of public borrowing, is one of the important structural problems in institutional, economic, and political structure.

Corruption is a complicated phenomenon with economic, social, and political dimensions and exists in varying degrees. Stiglitz (2002) asserts that corruption occurs as a result of governments acting according to private interests rather than public interest. Tanzi (1998) defined the corruption as the use of public power for personal gains, bribery and favoritism, receiving gifts and embezzlement, and damaging public property. In the relevant empirical literature, corruption is measured by various indexes. World Bank's control of corruption index and Transparency International's corruption perceptions index (CPI) are the ones widely used. The Transparency International's Corruption Perceptions Index reflects the degree of perceived corruption among public officials and politicians and is based on poll of polls, corruption-related data from expert and business surveys by various independent and reputable institutions (Rohwer, 2009). World Bank's control of corruption index includes the perception about how public power is used for private gain and based on data provided from various institutions (Rohwer, 2009). The aforementioned corruption indexes provid an idea to determine and compare the corruption level among the countries.

The rapid increases in the public sector borrowing requirement of the countries causes the public sector financing problem to reach increasingly serious dimensions at the present time. The share of the public sector in the economy raised gradually as a result of Keynesian approach in the period after the Second World War. The public sector deficits began to raise due to the insufficient increases in public revenues against the rapid expansions in public expenditures during this period. The stagflation phenomenon as a result of oil crises in 1970's weakened the confidence in Keynesian economic view. The decreases in production and employment, along with the stagflation phenomenon, have led the public sector borrowing requirement and in turn public sector deficits especially in developing countries. The public deficits stayed an important structural problem especially for the developing countries, although many fiscal measures were taken to combat with the public deficits in the period of accelerating globalization and liberalization during 1980s. Nowadays, public sector debt burden differs in terms of country and country groups, but it may negatively affect macroeconomic variables. A balanced and sustainable implementation of public borrowing policy, one of the fiscal policy instruments, is very important in ensuring and maintaining economic stability in a country (Bayar & Sasmaz, 2019).

In the relevant empirical literature, some researchers have revealed that the countries with high corruption levels generally have high public sector deficits and public sector debt burden (Grechyna, 2012; Cooray and Schneider, 2013; Benfratello et al., 2015; Henri, 2018). It may be resulted from that the raising corruption in public sector can pose an obstacle for efficiently sustainability of public expenditures. The inefficient increases in public expenditures stem from the expenditures not going to unproductive investments. This type of expenditures may negatively affect the public revenues through causing the erosion in tax revenues (e.g. see Hillman, 2004; Kaufmann, 2010; Faure, 2011). Faure (2011) suggested that irresponsible managers use the public sources irrationally to realize their own interests through abusing their duties and powers and in turn considerable increases in public sector expenditures are realized.

The corruption can also affect the distribution of public investments. The large investments in which corruption is easier to be realized may be among the primary investments. As a result, the public expenditures are not optimally distributed. The corruption phenomenon negatively affects tax revenues, which have the largest share in public revenues (e.g. see Schaeffer, 2002; Hillman, 2004; Ghura, 1998; Tanzi and Davoodi, 2000).

In the relevant literature, many scholars have explored the relationship among corruption and public expenditure and public revenues. However, relatively few studies have focused on the relationship between corruption and public sector borrowing. This study investigates the causal interaction between corruption and public sector borrowing in 11 EU transition economies for the period of 2002-2017 through causality tests of Kónya (2006) and Dumitrescu and Hurlin (2012). In this context, the next section reviews the related empirical literature. Data and econometric methodology are expressed and empirical analysis is conducted. The study is over with Conclusion Section.

LITERATURE REVIEW

In the related literature, the studies investigating the relationship between corruption and public sector borrowing have reached mixed findings (e.g. see Grechyna, 2012; Cooray and Schneider, 2013; Şahbaz et al., 2013; Gonzalez Fernandez and Gonzalez Velasco, 2014; Benfratello et al., 2015; Topal and Keyifli, 2016; Cooray et al., 2017; Benfratello et al., 2018; Henri, 2018; Apergis & Apergis, 2019; Ibrahim, 2020).

Grechyna (2012) examined the impact of the corruption in the public sector on public sector borrowing in 30 OECD countries for the period of 1995-2010 through dynamic panel regression and revealed that the corruption in public sector positively affected the public sector borrowing. Furthermore, the impact of corruption on public sector borrowing was resulted from not only the rent-seeking activities of public officials, but also institutional factors such political workload and political stability etc. On the other side, Cooray and Schneider (2013) investigated the relationship between corruption and public sector borrowing in 106 countries over the 1996-2012 period through regression analysis and discovered a positive relationship between corruption and public sector borrowing. Therefore, the increases in corruption raised the public sector borrowing. However; the increases in the shadow economy and the expansion of the public sector and the increases in defense spending strengthened the negative impact of corruption on public sector borrowing.

Şahbaz et al. (2013) researched the impact of corruption on public debt in 27 EU states in 2011 through cross-section analysis and revealed a positive impact of corruption on public sector borrowing. Gonzalez Fernandez and Gonzalez Velasco (2014) examined the relationship between shadow economy and corruption in Spain during the period 2000-2012 and discovered that shadow economy had a positive impact on public sector borrowing, but the impact of corruption on public sector borrowing was relatively lower when compared with shadow economy.

Benfratello et al. (2015) analyzed the relationship between corruption and public sector borrowing in 166 countries grouped according to the development level for the period of 1995-2013 through panel data analysis and revealed that corruption raised the public debt in all the countries. But the impact of corruption on public debt was found to relatively weaker in developing countries than the developed countries. Topal ve Keyifli (2016) explored the relationship between corruption and public borrowing in 34 OECD countries for the period 1998-2014 through static and dynamic panel data analysis and disclosed that corruption in the public sector raised the public debt burden.

Cooray et al. (2017) examined the relationship among corruption proxied by two different indexed, shadow economy, and public sector borrowing in 126 countries over the period of 1996-2012 through static and dynamic regression analyses and found that corruption and shadow economy raised the public sector borrowing. Furthermore, they revealed that shadow economy strengthened the impact of corruption on public debt and was a complementary element in the formation of the relationship between corruption and public debt. The increases in the shadow economy raised the public sector borrowing through decreasing the tax revenues. The study also revealed that high government expenditures strengthened the impact of corruption on public debt. Therefore, reducing the corruption should be a primary goal of the governments. Furthermore, reducing the corruption will also lead the decreases in the size of shadow economy and public sector borrowing given the complementarity relationship between corruption and the informal economy.

Benfratello et al. (2018) examined the impact of corruption on public debt in 164 countries over the period of 1995-2015 and concluded that corruption increased public sector debt. However; the impact of corruption on public sector borrowing varied among the countries depending on the GDP per capita. The relationship between corruption and public debt was found to be stronger in the developed countries. However, the impact was weaker in underdeveloped and developing countries, where some factors such as foreign aid could affect public debt. On the other side, Henri (2018) analyzed the impact of corruption on public debt in 29 Sub-Saharan African countries during 2000-2015 using dynamic regression analysis and concluded that corruption had a positive effect on public debt in Sub-Saharan African countries.

Apergis and Apergis (2019) analyzed the relationship between corruption and public debt in 120 countries during the 1999-2015 period using panel smooth transition regression and revealed a non-linear relationship between corruption and public debt. In other words, public sector borrowing was found to be higher (lower) in the countries with higher (lower) level of corruption. Lastly, Ibrahim (2020) examined the impact of corruption on public debt in 20 developing countries over the period 1996-2018 through autoregressive distributed lag model and reached that corruption raised public sector borrowing. Furthermore, the interaction between corruption and public revenues and the interaction between corruption and public spending positively affected public debt in the long run.

DATA AND METHOD

In the study, the causal interaction between public sector borrowing and corruption in 11 EU transition economies during the period 2002-2017 was analyzed through causality analysis. The public sector borrowing was represented by public debt as a percent of GDP and the corruption was proxied by control of corruption index which takes values between -2.5 (higher corruption) and 2.5 (lower corruption) calculated by World Bank (2019b) (see Kaufmann et al. (2010) for the detailed information). The two variables were provided from World Bank databases.

Table 1. Definition of the Variables

Variables	Definition	Data Source
PDEBT	Public sector borrowing (% of GDP)	World Bank (2019a)
CORRUPTION	Control of corruption index	World Bank (2019b)

In the study, firstly the cross-sectional dependency between two series was tested and then stationarity of the variables was examined. At last section of study, the causality between public sector borrowing and corruption was analyzed by Kónya (2006) panel bootstrap causality test regarding the cross-sectional dependence and Dumitrescu and Hurlin (2012) causality test.

In the econometric analyses, determination of cross-sectional dependence among the series is important for the selection of right tests (Pesaran, 2004). Therefore, the cross-sectional dependence was firstly examined in the applied section of the study. Breusch and Pagan (1980) LM test is used when time dimension is higher than cross-section dimension of the dataset. But Pesaran (2004) CD_{LM} is used when the cross-section dimension of the dataset is higher than time dimension of the dataset (Equation 1). Pesaran (2004) CD_{LM2} test is used when the cross-section dimension of the dataset equals to the time dimension of the dataset. Lastly, Pesaran et al. (2008) developed LM_{adj} test. The null hypothesis of cross-sectional independence is rejected when the probability values are found to be lower than 5% and it is revealed the presence of cross-sectional dependence among the series (Pesaran et al., 2008).

$$CD_{LM} = \sqrt{\frac{1}{n(n-1)}} \sum_{i=1}^{n-1} \sum_{j=i+1}^{n} (T \hat{\rho}_{ij}^{2} = \pi r^{2} - 1) \tag{1}$$

The panel bootstrap Granger causality test developed by Kónya (2006) is based on the estimations of SUR (Seemingly Unrelated Regression) estimators by Zellner (1962). As a result of the test, the bootstrapped values for each cross-section are the critical values. The cross-section dependency is loosened due to the estimator and critical values used in the test. On the other hand, the series used in the test should not be stationary or cointegrated, In other words, the test can be applied without testing the unit root and cointegration relationship (Kónya, 2006). Kónya (2006) causality test yields more reliable results because the SUR estimators give more effective results than OLS estimators in the presence of cross-sectional dependency Kónya (2006). The null hypothesis of no causality between two variables is rejected if the Wald statistic value is higher than the bootstrap critical values.

The causality test of Dumitrescu and Hurlin (2012), is the modified version of Granger (1969) causality test. The greatest advantages of the test are that it can give effective results in unbalanced panels, and it can employed when the cross-section size is larger than time dimension or vice versa, and it allows cross-sectional dependency (Dumitrescu and Hurlin, 2012).

EMPIRICAL ANALYSIS

In the empirical analysis, first cross-sectional dependence was examined and test results are displayed in Table 2. The null hypothesis of cross-sectional independence was rejected in all tests and the presence of cross section dependency was determined. For this reason, the tests considering cross-sectional dependence should be employed to reach more reliable results in the empirical analyses.

The stationarity analysis of the two series was explored through Pesaran (2007) CIPS (Cross-sectionally augmented IPS (Im- Pesaran-Shin (2003)) unit root test taking notice of cross-sectional dependence and the test consequences were displayed in Table 3. The test results revealed that all the two series were I(1).

Table 2. Results of Cross-sectional Dependence

Tests	PDEBT		CORRUPTION	
	Test Statistic	P Value	Test Statistic	P Value
CD_{LM1} (BP,1980)	360.6857	0.0000	249.1199	0.0000
CD_{LM2} (Pesaran, 2004)	28.09718	0.0000	17.45980	0.0000
CD_{LM} (Pesaran, 2004)	27.73051	0.0000	17.09313	0.0000
Bias-Adjusted CD Test	11.82403	0.0000	17.173683	0.0000

Table 3. Results of CIPS unit root test

Variables	Constant	Constant + Trend
PDEBT	-2.239	-0.308
D(PDEBT)	-3.662***	-2.530***
CORRUPTION	2.594	-0.146
D(CORRUPTION)	-6.332***	-4.382***

*** indicated that it is significant at 1%.

The causality between corruption and public sector borrowing at country level was analyzed by Kónya (2006) panel bootstrap causality test and test results were shown in Table 4 and Table 5. The results revealed a significant causality from public sector borrowing to corruption for Croatia, Czechia, Hungary, Romania and Slovenia. The impact was negative in Croatia, Czechia, Romania, and Slovenia and positive in Hungary.

On the other side, causality analysis from corruption to public sector borrowing revealed a significant causality from Bulgaria, Estonia, Lithuania, Poland, Slovakia and Slovenia. The impact was positive in Bulgaria, Estonia, Lithuania, and Poland and negative in Slovakia and Slovenia.

The causality between public sector borrowing and corruption at panel level was analyzed through Dumitrescu and Hurlin (2012) causality test and the results were shown in Table 6. The results revealed a bidirectional causality relationship between public debt and corruption is determined.

CONCLUSION

One of the crucial factors underlying macroeconomic instability in developed and developing countries is the inequality between public revenue and public debt. The raising public sector deficits also increase public sector borrowing. The public debt level changes mainly depending on the economic, political, social and institutional structure of a country. Recently, the studies on determinants of public sector borrowing have generally focused on the non-economic determinants of public debt. In this context, corruption is one of the important factors affecting the public sector borrowing. A presence of positive relationship between corruption and public sector borrowing is generally accepted. The countries with higher corruption level generally have higher public sector borrowing. Therefore, reducing corruption can make a contribution to the decreases in public sector deficits and public sector borrowing. The nega-

tive effects of corruption on public sector borrowing occur through two channels. First, it increases the amount of public expenditures by causing inefficiency (without contributing to production)in public expenditures. Secondly, it can negatively affect tax revenues, which are the most important component of public revenues.

In the study, the causal relationship between corruption and public sector borrowing debt was explored in the sample of 11 EU transition economies over the period of 2002-2017. The results of Kónya (2006) panel bootstrap causality test revealed a significant causality from public sector borrowing to corruption in Croatia, Czechia, Hungary, Romania and Slovenia and from corruption to public sector borrowing in Bulgaria, Estonia, Lithuania, Poland, Slovakia and Slovenia. Furthermore, the causality from public sector borrowing to corruption was negative in Croatia, Czechia, Romania and Slovenia, and positive in Hungary. On the other side, the causality from corruption to public sector borrowing was positive in Bulgaria, Estonia, Lithuania and Poland, and negative in Slovakia and Slovenia. The results of Dumitrescu and Hurlin (2012) causality test revealed a two-way causality between public sector borrowing and corruption. In other words, public sector borrowing and corruption affected each other. Our findings were found to be mainly consistent with the related theoretical and empirical findings.

Table 4. Results of Kónya (2006) Panel Bootstrap Causality Test

H_0: Public sector borrowing is not cause of corruption				
		Bootstrap Critical Values		
Countries	**Wald Statistic**	**1%**	**5%**	**10%**
Bulgaria	11.823107	101.21500	44.78664	28.38833
Croatia	**65.305200***	145.86078	71.17370	47.95277
Czechia	**52.636672***	129.48206	53.50032	35.91476
Estonia	3.3691676	120.83400	51.08104	33.06024
Hungary	**27.230745***	78.26607	39.36166	26.90569
Latvia	1.8485281	112.36515	51.52776	33.00265
Lithuania	0.26685503	111.50526	56.86872	39.28571
Poland	14.600959	70.91245	33.87039	21.78884
Romania	**46.183922***	139.55795	66.95853	45.60325
Slovakia	0.44421415E-01	101.22202	54.41975	36.52744
Slovenia	**35.080304***	119.57380	54.79380	34.78646
Causality Direction	**Countries**		**Significance of Causality**	
PDEBT® CORRUPTION	Croatia, Czechia, Romania, and Slovenia		Significant and negative	
	Hungary		Significant and positive	
	Other countries		Insignificant	

Note: ***, **, * respectively indicates it is significant at1%, 5%, 10% significance levels

Table 5. Results of Kónya (2006) Panel Bootstrap Causality Test

H_0: Corruption is not cause of public sector borrowing.				
		Bootstrap Critical Values		
Countries	**Wald Statistic**	**1%**	**5%**	**10%**
Bulgaria	**320.99929*** **	118.14261	56.05111	36.68284
Croatia	2.0802620	83.40369	42.73449	28.35037
Czechia	0.18738412	88.23106	44.44983	29.36712
Estonia	**63.860092** **	81.12737	42.19550	28.53855
Hungary	10.164217	115.47012	50.74482	33.56518
Latvia	0.43117788	89.18035	42.39640	27.25514
Lithuania	**27.879623***	82.05833	39.62748	26.45585
Poland	**58.070303** **	96.26031	44.60197	28.76840
Romania	0.54733215E-01	68.43093	34.66645	23.06435
Slovakia	**63.776961*** **	62.20930	31.19857	20.68911
Slovenia	**39.558280** **	67.55662	30.97926	20.12374
Causality Direction	**Countries**		**Significance of Causality**	
CORRUPTION® PDEBT	Bulgaria, Estonia, Lithuania, and Poland		Significant and positive	
	Slovakia and Slovenia		Significant and negative	
	Other countries		Insignificant	

Note: ***, **, * respectively indicates it is significant at1%, 5%, 10% significance levels

Table 6. Results of Dumitrescu and Hurlin Panel Causality Test

Variables	**K=1**		
	W-Stat.	**Zbar-Stat.**	**Prob.**
PDEBT ½CORRUPTION	3.02116	3.02124	0.0025***
CORRUPTION ½ PDEBT	3.02440	3.02662	0.0025***

Note: ***, **, * respectively indicates it is significant at1%, 5%, 10% significance levels

Consequently; economic and non-economic measures by the governments in combat with corruption is important for the sustainability of public deficits and public debt. The implementation of policies by the political authority that will give confidence to the society in reducing corruption can reduce the level of corruption perception. The ensuring the judicial independence, decreasing the regulatory burden, preventing wastefulness in public expenditures, ensuring and maintaining the political stability, strengthening the laws and institutional quality is important to combat with the corruption.

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Chapter 36
Supplier Selection in Food Industry Using Analytic Hierarchy Process (AHP) Method

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ABSTRACT

The human population has been growing rapidly in recent years. One of the most basic needs of people is food. Many countries around the world invest in the food industry. Climate change, population growth, urbanization, natural disasters, and agricultural efficiency are important factors affecting food production. Companies must constantly control their production, marketing, and supply chain process depending on the rapidly changing competitive conditions. Supply chain management is an important process for companies to be successful and ensure their continuity in the food industry, as in many industries. Analytical hierarchy process (AHP) method is widely used in supplier evaluation. In this study, it was aimed to determine the best supplier of food production company using the AHP method. In the study, three different suppliers were evaluated according to five different criteria by taking the opinions of four experts working in the purchasing department. As a result of the study, the best supplier has been selected.

INTRODUCTION

People need food to sustain their lives. Therefore, it is considered that the food industry will become an even more important sector in the future. Businesses that produce under reliable and human health conditions will be successful in the industry. From this point of view, companies need to select suitable suppliers due to global competition.

Some of the problems of food production are financial incentives, moral hazards, and information asymmetry. Each partner of the supply chain has different complex claims regarding financial aspects (Mau and Mau, 2009). Supplier selection is a strategic decision and plays a significant role in supply chain performance. Companies and decision-makers need to identify suppliers that can deliver the right

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product at the right time and the right quality. The purchasing department plays an important role in the efficiency of a business. Suppliers have an important impact on the success of a company, and the purchasing process is considered a strategic responsibility (Kaviani et al., 2020).

Suppliers have an important place in the food industry. Food industry suppliers provide machinery, equipment, after-sales maintenance services, and raw materials for companies. Identifying the appropriate supplier in the food industry has a direct impact on cost reduction, flexibility, and profitability of the company (Ramlan et al., 2016).

The importance of food supply chain management is increasing both scientifically and industrially. Companies of the food sector must deal with more uncertainty in the supply chain. Those uncertainties are related to product variety, customer demands and interconnected distribution network. This case reveals that companies of the food sector must manage cost/risk trade regardless of sustainability, freshness, and corporate social responsibility problem (Amorim, et al., 2016).

This study aimed to select the most suitable supplier of a food company in Turkey using the AHP method. The company in the study is a food producer company in the Aegean region of Turkey. The rest of the study is organized as follows. In the second part, a literature review related to supplier selection is given. AHP method is included in the third section, the methodology section. The fourth part of the study consists of the application phase where the criteria weights are calculated and the suppliers are ranked. In the fifth, in the last part, a general evaluation of the study has been made.

LITERATURE REVIEW

Multi-criteria decision-making (MCDM) methods are widely used in supplier selection in the literature, (Hou and Su, 2006; Bruno et al., 2012; Kasirian and Yusuff, 2013; Mardani et al., 2015; Frej et al., 2017; Amindoust and Saghafinia, 2017; Wang et al., 2020).

Some of the studies in which suppliers are selected in different sectors using the AHP method are given in the following paragraphs.

Hou and Su (2006) were used the AHP method to select a web-based supplier in the electronics industry. In their study, 5 suppliers were evaluated considering technology, research and development, quality, service, price, location, and delivery criterion.

Paksoy and Güleş (2006) were used the AHP for supplier selection problem in a company in the textile sector in Turkey. In the study, 6 supplier firms were evaluated according to quality, supplier performance, cost, compromise ability, technology, color supply and distance criterion.

Hudymáčová et al., (2010) were used the AHP method to select the best supplier of a firm in the manufacture of plastic and rubber products in Slovakia. In the study, 3 suppliers were evaluated according to quality, cost, delivery, equipment, flexibility, documentation and cooperation criterion.

Ni-Di and Ming-Xian (2010) were used the AHP method for agri-food supplier selection of an enterprise. In their study, 3 suppliers were evaluated according to quality, cost, delivery and service criterion.

Bronja (2011) was used the AHP method for supplier selection problem in a company producing mechanical devices for cars. In the study, 20 suppliers were evaluated according to price, range of supply, lead time, quality, performance, flexibility, locations, and delivery criterion.

Rouyendegh and Erkan (2012) were used the AHP to determine the best suppliers that are providing equipment to a university in Turkey. In the study, 3 suppliers were evaluated according to cost, quality, delivery and flexibility criterion.

Verma and Pateriya (2013) were used the AHP method for supplier selection in small scale manufacturing organization. In their study, 3 supplier firms were evaluated according to product quality, on-time delivery, facility and technology, price/cost, professionalism of salesperson, performance history and quality of relationship with vendor responsiveness to customer needs criterion.

John, Baby and Mangalathu (2013) were used the AHP method to evaluate valve suppliers of a company. In the study, 7 suppliers were evaluated according to quality, delivery, service and environmental regulation compliance criterion.

Damle and Keswani (2014) were used the AHP method to select the best supplier of a furniture manufacturer company. In the study, 3 suppliers were evaluated according to technical parameters, credit terms and shipping time criterion.

Candan and Yazgan (2015) were used the AHP method in a pharmaceutical manufacturer to determine the most suitable supplier for "amoxicillin" raw material. In the study, 3 suppliers were evaluated according to price, timely delivery, reliability, potency, quality, lot size and origin criterion.

Anggani and Baihaqi (2017) were used the AHP method to identify the best "maltodextrin" supplier of an enterprise that produces dairy products. In their study, 2 suppliers were evaluated according to quality, quantity, delivery, warranty and pricing criterion.

Gümüş et al., (2017), were used the AHP to select the best suppliers of two different hotels (one of them is 4 stars and the other is 5 stars) are located in Alanya that is one of the most important tourism destinations of Turkey. In the study, flexibility, price, quality, profile, supplier relations and delivery criteria were used as the supplier selection criterion.

Moktadir, Rahman and Sultana (2017) were used the AHP method to evaluate the suppliers of a company in the leather product sector. In their study, 4 suppliers were evaluated according to delivery, quality, technology, keep promise, price, standardization, service, and packaging criterion.

Şekerci and Yazıcıoğlu (2019) were used the AHP to select pet bottle raw material suppliers of a company pet bottle water production. In the study, 5 suppliers were evaluated according to quality, delivery, cost and technical competence criterion.

RESEARCH DESIGN

This study has been applied in a food production firm in the Aegean region. 3 suppliers of the firm were evaluated in line with the opinions of 4 experts working in the purchasing department of the business. There are many different criteria used in supplier evaluation in the literature (Dickson, 1966; Tahriri et al., 2008; Ordoobadi, 2009; Ho, Xu and Dey, 2010; Sydani, Karbasi and Yekta, 2011; Liao, et al., 2012; Tas, 2012; Banaeian et al., 2015; Rezaei, et al., 2016; Kaviani et al., 2020). Based on the literature review and opinion of purchasing experts, delivery, price, quality, flexibility and service criteria were determined as supplier evaluation criteria. Microsoft Excel 2016 program was used for AHP implementation.

Research Method

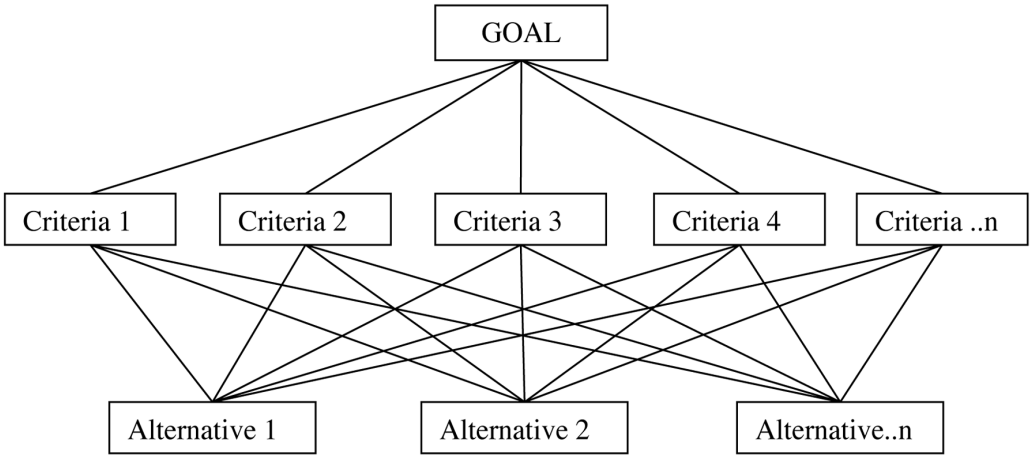
Analytical Hierarchy Process (AHP)

The Analytical Hierarchy Process (AHP) was developed by Thomas L. Saaty (1980) in the 1970s and has become one of the most used multi-criteria decision-making problems (Şengül, Eren and Shiraz,

2012; Felice et al., 2015; Polat and Eray, 2015). Both objective and subjective evaluation criteria are used in the AHP for decision making (Şengül, Eren and Shiraz, 2012). In this method, complex problems become much more understandable by using the hierarchy process (Felice et al., 2015). The AHP method is a measurement theory based on the priority values obtained by binary comparison of alternatives according to a common criteria (Duke and Hyde, 2002; Özguven, 2011). The AHP method is used in decision-making problems where one or more decision-makers are involved in the process and there are too many alternatives or criteria (Duke and Hyde, 2002). AHP is a widely applied method for multi-criteria analysis and is widely used in many decision-making problems (Tahriri et al., 2008; Romeijn et al., 2016). The AHP is implemented with other MCDM methods. AHP is a useful method based on a mathematical and psychological basis to analyze complex decisions (Petrini et al., 2016). The AHP method helps decision-makers find the most suitable alternative (Jain et al., 2018).

The AHP consists of 4 steps and these steps are described below (Saaty, 2008; Polat and Eray, 2015). In the first step, decision-making problem, selection criteria, possible alternatives are determined and a hierarchical structure is created. In the hierarchy of the decision, the main target, criterion and alternatives are listed as the main target at the top, criterion at the middle and alternatives at the bottom. The hierarchy structure for the AHP model is shown in figure 1.

Figure 1. Hierarchical structure for the AHP model
Source: Saaty and Vargas, 2001; Şengül, Eren and Shiraz, 2012



In the second step, a comparison matrix is created to determine the importance of criterion. If there is more than one decision-maker in the solution of the problem, the geometric mean of the comparison matrices is taken. Comparisons using the AHP technique are based on the scale of importance given in Table 1.

In the third step, the importance weights of the criteria are calculated. For calculation of the criteria weights, each element in the binary comparison matrix is divided by the sum of its column, and the arithmetic average of each row is taken. Thus, the weights of the criteria are calculated. Then, by the decision-makers, the importance weights are determined by making a binary comparison of the alter-

Table 1. Saaty's rating scale

Level of Importance	Definition	Explanation
1	Equal importance	Two activities contribute equally to the objective
3	Moderate importance of one over another	Experience and judgment strongly favor one activity over another
5	Essential or strong importance	Experience and judgment strongly favor one activity over another
7	Very strong importance	An activity is strongly favored and its dominance demonstrated in practice
9	Extreme importance	The evidence favoring one activity over another is of the highest possible order of affirmation
2, 4, 6, 8	Intermediate values	When compromise is needed

Source: Saaty, 1990

natives according to Saaty's rating scale in Table 1. Priority values for each alternative are calculated by multiplying the importance weights of the alternatives and the importance weights of the criteria.

In the fourth step, the consistency ratio is calculated. For a comparison matrix to be consistent, the largest eigenvalue ($\lambda m_{ax)}$ must be equal to the matrix size (n*)*. Consistency Index (CI) and Consistency Ratio (CR) are calculated using equations (1) and (2), respectively (Saaty, 1994; John, Baby and Mangalathu, 2013; Ramlan et al., 2016). The Random Consistency Index (RI) takes the values in Table 2.

$$CI = \frac{\lambda_{\max} - n}{n-1} \tag{1}$$

$$CR = \frac{CI}{RI} \tag{2}$$

Table 2. RI, Random consistency index

n	1	2	3	4	5	6	7	8	9	10
RI	0	0	0,52	0,89	1,11	1,25	1,35	1,40	1,45	1,49

Source: Saaty, 1994

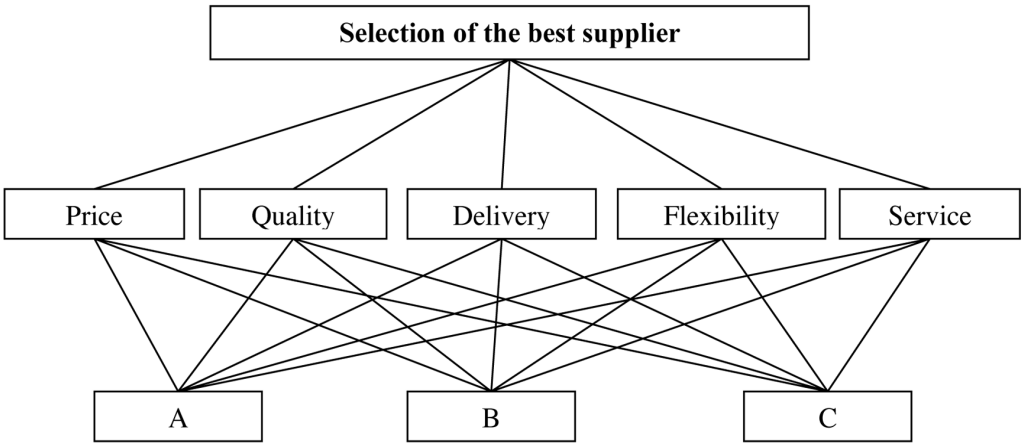
The acceptable upper limit for the consistency rate (CR) in the comparisons is 0.10. In cases where the consistency ratio is more than 0.10, decision-makers are asked to evaluate again (Garoma and Diriba, 2014; Zarghami et al., 2018; Şekerci and Yazıcıoğlu, 2019).

APPLICATION

Establishing the Hierarchical Structure of the Study

The hierarchical structure of the study is given in figure 2. Suppliers are expressed as A, B and C, respectively.

Figure 2. The hierarchical structure for the study



Comparison of Criterion According to Saaty's Rating Scale

The pairwise comparisons of the criteria were made by 4 different experts according to Saaty's rating scale given in Table 1. The geometric mean of the comparison matrices made by 4 different experts regarding the criteria is taken and given in Table 3.

Table 3. Pairwise comparison matrix regarding criterion

Criteria	Delivery	Price	Quality	Flexibility	Service
Delivery	1,000	0,760	0,508	3,409	2,590
Price	1,316	1,000	0,577	5,916	5,207
Quality	1,968	1,732	1,000	5,097	6,300
Flexibility	0,270	0,169	0,196	1,000	0,439
Service	0,386	0,192	0,159	2,280	1,000
Total	**4,94**	**3,85**	**2,44**	**17,70**	**15,54**

Calculation of Criteria Weights

Normalization was performed after the binary comparison matrix. In normalization, all column values are divided by the sum of each matrix column. Using the normalized matrix, the average of each row value was taken, thus, as indicated in Table 4, priority value (PV) was obtained for each criteria.

Table 4. Criteria weights

Criteria	Delivery	Price	Quality	Flexibility	Service	PV
Delivery	0,202	0,197	0,208	0,193	0,167	0,193
Price	0,266	0,260	0,237	0,334	0,335	0,286
Quality	0,398	0,450	0,410	0,288	0,406	0,390
Flexibility	0,055	0,044	0,080	0,056	0,028	0,053
Service	0,078	0,050	0,065	0,129	0,064	0,077
Total	**1**	**1**	**1**	**1**	**1**	

Priority values were found as 0,193 for delivery criteria, 0,286 for price criteria, 0,390 for quality criteria, 0,053 for flexibility criteria and 0,077 for service criteria. In this case, the criteria with the highest weight is the quality criteria and the criteria with the lowest weight is the flexibility criteria.

Calculation of Consistency Ratio

λm_{ax} was calculated as follows using the priority values.

$\lambda m_{ax} = (5.113 + 5.169 + 5.182 + 5.003 + 5.037) = (25.504)/5 = 5.101$

After λm_{ax} was calculated, the Consistency Index (CI) was calculated using equation (1) as follows.

$$CI = \frac{5,101 - 5}{5 - 1} = 0,025$$

The Consistency Ratio (CR) was calculated as follows using the RI value in Table 2 and equation (2).

$$CR = \frac{0,025}{1,11} = 0,023$$

If the Consistency Ratio (CR) is less than 0,10, it means that the results obtained are within acceptable limits. As can be seen from Tables 5, 6, 7, 8 and 9 the matrices were considered consistent because the consistency rates were less than 0,10.

Ranking of the Suppliers

The pairwise comparison of the suppliers in terms of each criteria was made using the scale in Table 1 for the ranking of the suppliers. A single matrix was created for each criteria taking geometric averages of the comparison matrices made by 4 different experts. Pairwise comparison matrices are given in Tables 5, 6, 7, 8 and 9.

Table 5. Pairwise comparison of suppliers in terms of price criteria

Suppliers	A	B	C	Priority Value
A	1,000	1,000	0,411	0,235
B	1,000	1,000	0,615	0,268
C	2,432	1,627	1,000	0,497
$\lambda m_{ax=}$3.018; C*I*=0.009; C*R*=0.017				

Table 6. Pairwise comparison of suppliers in terms of quality criteria

Suppliers	A	B	C	Priority Value
A	1,000	0,411	3,409	0,278
B	2,432	1,000	6,839	0,634
C	0,293	0,146	1,000	0,087
$\lambda m_{ax=}$3.004; C*I*=0.002; C*R*=0.004				

Table 7. Pairwise comparison of suppliers in terms of delivery criteria

Suppliers	A	B	C	Priority Value
A	1,000	2,141	3,201	0,547
B	0,467	1,000	2,590	0,309
C	0,312	0,386	1,000	0,144
$\lambda m_{ax=}$3.034; C*I*=0.017; C*R*=0.032				

Table 8. Pairwise comparison of suppliers in terms of flexibility criteria

Suppliers	A	B	C	Priority Value
A	1,000	0,669	0,880	0,272
B	1,495	1,000	1,732	0,445
C	1,136	0,577	1,000	0,282
$\lambda m_{ax=}$3.008; C*I*=0.004; C*R*=0.008				

The operations performed to calculate the criteria weights, as in Table 4, were applied to Tables 5, 6, 7, 8 and 9 and the priority values of the suppliers were calculated for each criteria. The priority values of the suppliers for each criteria are given in Figure 3.

By multiplying the criteria weights in Table 4 with the priority values of the suppliers, the final priority value for each supplier was calculated as in Table 10.

When Table 10 is examined, it is understood that the best alternative is B with a priority value of 0, 454. The ranking of the suppliers is B, A, C respectively and it is shown in figure 4.

Table 9. Pairwise comparison of suppliers in terms of service criteria

Suppliers	A	B	C	Priority Value
A	1,000	0,447	2,943	0,295
B	2,236	1,000	4,880	0,595
C	0,340	0,205	1,000	0,111
$\lambda m_{ax=}$3.010; C*I*= 0.005; C*R*=0.010				

Figure 3. Priority values of the suppliers for each criteria

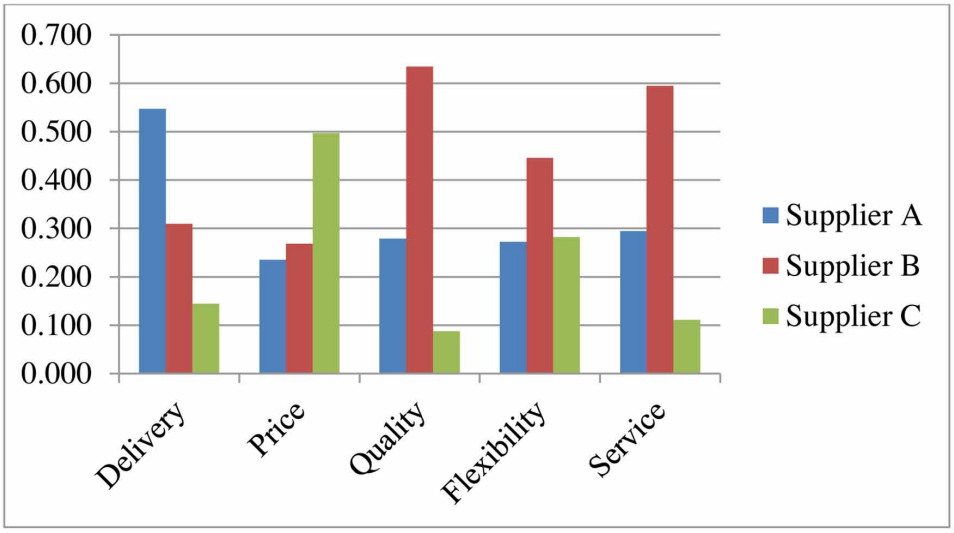
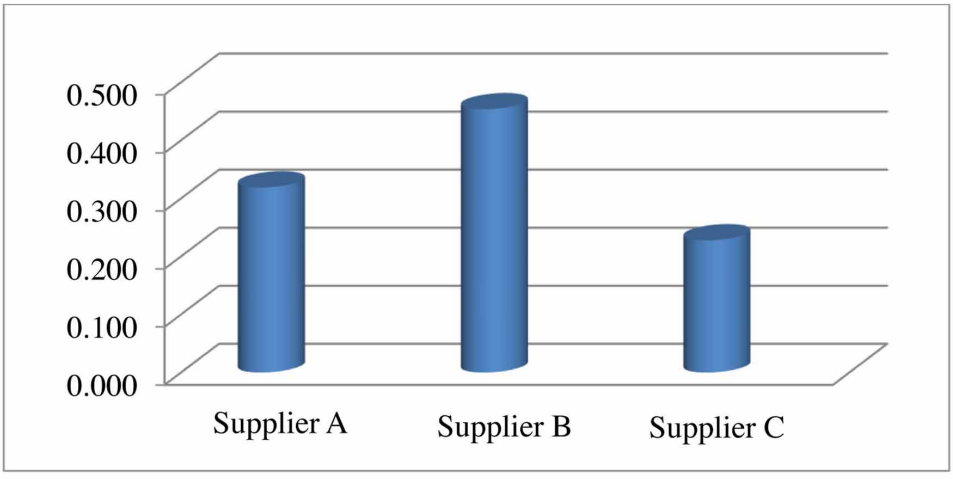


Table 10. Final priority values of the suppliers

Supplier / Criteria	Price (0,286)	Quality (0,390)	Delivery (0,193)	Flexibility (0,053)	Service (0,077)	Priority value
A	0,235	0,278	0,547	0,272	0,295	0,319
B	0,268	0,634	0,309	0,445	0,595	0,454
C	0,497	0,087	0,144	0,282	0,111	0,228

Figure 4. Ranking of the suppliers



FUTURE RESEARCH DIRECTIONS

This study can give a perspective of the business executives in the industry to evaluate their suppliers. Researchers who will work on this subject in the future can carry out studies in different sectors by using the AHP method or different MCDM methods. The limitation of this study is that the study was carried out at a company in the Aegean region of Turkey. Therefore, it is recommended that future studies can be carried out in different regions of Turkey or different countries.

CONCLUSION

Selecting suitable suppliers is very important for effective supply chain management. Therefore, selecting suppliers that can meet their needs correctly and appropriately for business will provide a competitive advantage to that business. This selection becomes difficult in customer-oriented food companies. MCDM methods are widely used in supplier selection problems involving more than one criteria. In this study, the AHP method was used. In the study, 3 suppliers were evaluated according to price, quality, delivery, flexibility and service criteria. In the study, pairwise comparisons of the criteria were made and the weights of the criteria were calculated.

According to the results of the study, the criteria with the highest weight is 0.390 with quality and the criteria with the lowest weight is 0.053 with flexibility. After the criteria weights have been calculated, the priority values of the suppliers have been calculated by making binary comparisons of the suppliers for each criteria. The criteria weights and the priority values of the suppliers were multiplied to rank the suppliers. The final priority value of the suppliers was calculated as 0.319 for supplier A, 0.445 for supplier B and 0.228 for supplier C. As a result of the study, supplier B was selected as the best supplier.

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KEY TERMS AND DEFINITIONS

Global Competition: It can be defined as the competition of companies, institutions, organizations, or governments in the increasingly complex and technology-oriented world conditions.

Logistics: Logistics management council defines logistics as part of the supply chain operation that plans, implements and controls the flow of relevant information and storage of good services efficiently between the point of origin and the point of consumption to meet the needs of customers.

Supply Chains: The Supply-Chain Council defines the supply chains as the whole of stages related to the production and presentation of a final service or product from the supplier of the supplier to the customer of the customer.

Chapter 37
Foreign Language (English) Learning in Cross-Cultural Communication in Indonesia

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ABSTRACT

The use of English in all aspects, especially in the world of education in Indonesia, has become more popular. Indonesia has a strategic location geographically, the need to be able to communicate in English is inevitable. This chapter was focusing on the foreign-language learning of Indonesian people regarding their interaction with people from other countries and cultures, which is using English. There were several previous researches taken, to be discussed in this chapter in supporting the idea that interaction with people from different countries and cultures would be able to promote the process of foreign-language (English) learning in verbal communication, especially for Indonesian people. Researches came up with the results that cross-cultural communication of Indonesian showing that the circumstances were giving a positive impact for their work and life, either professionally or personally. The verbal interaction should be conducted well to a better understanding. In order to communicate well, one should be able to master the international language, in this case is English.

INTRODUCTION

The use of English in Indonesia almost covers all aspects, politics, economics, defenses, etc. Indonesia's education saw this phenomenon of globalization then immediately responded by developing new

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educational system which presented in English (Willyarto et al., 2017). English as a foreign language in Indonesia is a lingua franca that is used internationally. The demand for using English will probably remain high for years to come. English language teaching is becoming the most important to acquire the English language for Indonesian people, not only for adults but also for every student in all level of education. English as a global language nowadays plays an important role in Indonesia's foreign language education, especially to Indonesian people who perceived English as a foreign language. Some of the children in certain situation obtained sufficient communication in English from their surroundings, such as school, friends and family. This exposure makes them absorb English instantly. As the result, they are able to communicate in English appropriately. Indonesian children have substantial ability to imitate and express a number of sentences in English relatively close and similar to the pronunciation of native speakers, due to the influences from movies and television series. It is widely recognized that English is important for Indonesia and the reason most frequently put forward for this is that English is a global or international language. This means in effect that approximately one in four of the world's population are capable of communicating to a "useful level" in English. That is potentially a lot of people for Indonesians who know English to communicate with (Lauder, 2008). Language policy in Indonesia has to contend with a highly multicultural and multilingual society. English, its status, and its role or function in the functioning of the nation and in education in particular has to be seen against the backdrop of where it takes a place in the third of three main categories, Bahasa Indonesia, the regional vernaculars, and foreign languages.

Many challenges are still faced by education stakeholders in integrating technology for English language teaching, particularly for teachers as the agent of educational mobility. Researches have been done on cross-cultural communication findings from different countries in order to determine what factors might be best applied to the Indonesia situation to improve learning and teaching. In addition, the use of technology for teaching can be a countless message for agents of education particularly for teachers in choosing the most adaptive technology tools within their pedagogy setting. However, more research on technology integration and technology tools for English language are still needed to be explored to enrich research on education, such as more areas of technology to investigate, for instance, on finding more varied technology types to be applied in teaching language skills (Ammade et al., 2018). productive skills such as speaking, and writing had become the priority. The integrated nature of language and culture was emphasized. Communication across cultures also gained an important position (Wahyudi et al., 2018). The information of lecturers' perceptions and the strategies used to promote intercultural competence. It portrayed that learners were to be more inclusive, aware of their own culture and acquire more understanding of other cultures, acknowledge commonalities, and respect differences. More importantly, learners have to be able to interact harmoniously and reciprocally with people from cultures other than their own (Abduh & Rosmaladewi, 2018).

Developing insights into human resource strategies and the importance of understanding cross-cultural psychological communication is a key issue. Such analysis provides a picture of the importance to an organization in the development of a worldwide communication network, may it be in the company or with external stakeholder such as supplier, customer, government and others. These phenomena also involve the development of technology that provides the ability to send messages in large volume and in high speed in a short span of time and across great distances. The capacity of communication that bridges between cultures becomes important for the affectivity of workers as well the organization. The organizational implication from these types of variations is that individuals that originate from different cultures, and have different levels of language competencies, will need special strategies that can assist

them reach effective communications in their business interactions. This is needed because of their role in increasing the value of the globally interconnected business networks (Kartikawangi, 2017). In Indonesia, the development of micro and small businesses (MSMEs) has become the government's priority in efforts to strengthen the national economy. Traditional society is a group of special concern in the development of micro and small businesses in Indonesia, especially when associated with universities. The programs carried out so far have not shown significant results. Funds prepared for the MSME development program in 2019 will be in the form of partnership funds totaling IDR 3.2 trillion. The funds were expected to be utilized by business actors for the development of their businesses. In 2018, the partnership fund provided by the government was IDR 2.5 trillion (Yunus, Wahyuningtyas, Willyarto, et al., 2019). Various universities try to help in providing guidance so that MSMEs can run programs that are in accordance with the target. Among these universities is Binus University. One of the things that needs to be considered for MSMEs is that differences in culture in one region with other regions can be a barrier to the success of business programs. It means the ability to communicate well in English is a necessity, especially for those who are not English speaking.

BACKGROUND

The term multicultural education means different things to different people. The only common meaning was that it referred to change in education that are supposed to benefit people of color. The typology presented here provides a way of differentiating among various meanings. It is important for readers to be aware of these differences because authors do not necessarily spell out their goals and assumptions. Multicultural education is becoming an accepted and articulated concept among teacher educators and teachers, in part because of the increased attendance of students of color in the schools. Teachers are explicitly requesting help in the forms of materials and information about multicultural education. Textbook publishers have become more assertive in efforts to identify and publish multicultural materials for teacher training as well as staff development. Additionally, during the summer of 1987, several leading advocates of multicultural education met to discuss the feasibility of establishing a journal in the field. These efforts parallel those in Australia and England, for example, where a small but growing group of scholars and practitioners is trying to develop the field. These scholars are beginning to organize a network with their North American counterparts (Willyarto, Yunus, et al., 2019). Whether it will be necessary for critics or scholars to undertake a comparable review and analysis of multicultural education ten or fifteen years into the future will depend largely upon the extent to which the field enjoys both excellent scholarship and financial support. Multi-culture is wider than that. It is more about the way people life. In counterpoint to the historical lens of looking at culture as the reason for academic achievement, presenting achievement data aligned to race/ethnicity influences teacher expectations and may become a self-fulfilling.

When communicators from different cultural contexts interact, values of this kind are often central in their communication. But since understanding what general concepts a person believes in is equivalent to understanding what beliefs he has, interactions involving general concepts of value do not constitute a communicative challenge that is different in principle from communication of beliefs. Of course, from the perspective of an audience, to understand what concepts of value a speaker believes in is sometimes experienced as important, but the point is that if the audience's overall focus is on the speaker's beliefs, then the focus on the speaker's general concepts of value is included within that broader focus. Another

way of understanding cultural value, however, corresponds to a communicative challenge that is different in principle from communication of beliefs and is especially important in intercultural interaction. According to the analysis, to understand what personal values a person has is tantamount to understanding how he wishes to live his life, and this is not a matter of understanding what thoughts and beliefs he has (Wahyuningtyas et al., 2019). The fact that persons from different cultures typically live their lives insignificantly different ways means that it is especially important to focus on these values in real-life interaction. How people interact with different cultures, either to adapt or to conform, is a part of learning, especially language learning in order to be able to communicate and share values with others.

Quality thinking processes begin with critical and creative thinking. By thinking critically students interact with one another and with all sources of knowledge they can obtain. Group work can be a means for students to channel their creativity and complement each other's opinions. In every thought process there is an element of critical & creative thinking, which involves a variety of psychomotor abilities (Willyarto, 2019). This critical and creative thinking process is generally applied in various fields of science. Today in the world of education, a lot of the term "thematic learning" is heard. Thematic learning is learning across fields of study that invites students to think critically addressing all the problems they face and creatively map out alternative solutions to problems and take the best solutions to problems.

The discussion of what role foreign languages in general and English in particular should play in Indonesia's national language policy has been framed since early on using the metaphor of English as a tool (*alat*) which is to be made use of by Indonesians to bring in selectively specific information, knowledge and technology that would accelerate development. Development is nationalistic, patriotic. English is essential but the role that English be allowed to play is restricted to its utilitarian value in accessing information that can promote economic growth. Its role as an expression of general cultural and intellectual identity is kept out of the picture. English also represents a threat. Some educators in Indonesia have long worried that the widespread knowledge of English would have a negative impact on Indonesian culture, values and behavior. This threat has usually been portrayed as a threat of western "liberal values" which is interesting because English of course encapsulates all of the values from the U.K. and the U.S.A. including conservative and other values and not only the liberal ones (Lauder, 2008). The need for English as a language of international communication exists in complementary distribution to that of Indonesian as a language of national unity. In Indonesia, the success of the national language, which has developed from modest beginnings to be able to meet the communication needs of a modern society, has been achieved at the price of people not having a working ability in English.

While learning a foreign language, learners commonly construct a system for themselves that is different in some ways from the system of their native language (mother tongue or first language) and foreign language or the target language (or TL hereafter), the language that the learners are learning. Learners go through linguistic stage during the process of mastering the target language. Selinker (1977) in (Afiana et al., 2018) was the one who first introduced this process as Interlanguage (IL). The term Interlanguage refers to the reflection of learners' attempts to construct a linguistic system that gradually approaches the target language system. Since it was introduced, Interlanguage has become a major concern in second language acquisition study and theory. English is a foreign language for Indonesian people, therefore interlanguage became the focus of the curriculum of learning English language from basic to higher education. One method that support students/people in developing their ability to communicate in English is creating or putting ones in the daily living situation and condition. Communicating with people from different countries is contextual for English learning. This cross-cultural communication

occurred would improve one's skill in mastering English language to maintain effective interaction in order to achieve goals.

English has been considered to be the first foreign language in Indonesia. It functions to help the development of the state and nation, to build relations with other nations, and to run foreign policy including as a language used for wider communication in international forum. In relation to that Indonesia has been carrying out teaching EFL in almost level of schools, starting to be taught in basic primary school until secondary school. However, since it is only a foreign language, there are a lot of problems found in the English language learning.

STATE OF THE ART

A descriptive study is the most "theoretical" approach of all qualitative research approaches. Although different from other qualitative research designs, descriptive studies allow to have several other types of approaches. In other words, a descriptive study might have research based on theory because it is used for comparative analysis when examining data (Yunus, Wahyuningtyas, & Willyarto, 2019).

A systematic literature review is a summary and assessment of the state of knowledge on a given topic area or research question. They are structured to rigorously summarize existing knowledge and evidence while identifying gaps and new directions for future research and differ from generic literature reviews in three main ways: they begin by defining a review strategy, they explicitly identify inclusion and exclusion criteria, and they aim to assess the largest amount of relevant and available literature as possible. The specification of search criteria and full reporting of search results is essential to full disclosure in the review methodology. However, by not fully disclosing search criteria (e.g. search terms used, search databases used, search strategy) and not reporting search results (e.g. number of articles reviewed) the review process has been questioned and criticized for lack of transparency. While systematic literature reviews are widely utilized in health research the approach being the most common, their use in the social and physical sciences is less common (Ford & Pearce, 2010). The use a systematic literature review is to identify and characterize studies providing insights on the nature of learning English in a supporting environment.

To start with, a comprehensive literature review was conducted to find the studies exploring the issues, challenges, and research themes. First, a computer search was conducted over different electronic databases. Second, the references cited in the articles found as relevant were reviewed for locating other publications containing data of research. In cases of doubt, group discussion was always conducted to reach consensus (Tazik & Khany, 2019). In this study, there were several articles taken with similar topic, about the communication among people from different countries, language and culture in order to gain positive impact. The literatures reviewed for this study are from books, journal articles and proceeding or conference works. Google Scholar was also used to assist in finding relevant literatures that match the keywords. Keywords for this literature survey were, cross-cultural communication, English learning, literature review method.

There were several researches conducted in the scope of multiculturalism and inter-cultural communication. Yet, there were a few of them related to the process of learning of foreign language, such as English for Indonesian people. Since English is now becoming a global language that is used in countries around the globe to unite people with different languages and culture, Indonesian people as part of global citizen should be able to communicate well using English in order to interact with people from different

countries and languages. English is a foreign language for Indonesia people, so that the English subject is not compulsory to be taught in basic education (primary/elementary level). Therefore, there are still many Indonesian people who don't master English Language well.

The results of research conducted quantitatively on 500 respondents stated that there was a positive influence of cross-cultural communication on economic growth of 57.4 percent and on social improvement of 56.8 percent in the Binus environment. With these results, then continued qualitative research specifically for activities in Tourism Destination Study Program in Binus. Activities handled are carrying out tours, starting from handling transportation, accommodation, visitation to places that have been promised in the tour packages, tour guides and other support staff as needed, or which are optionally requested by tourists. Practically, there are wholesaler and retailer. The retailers sell tour package products from wholesalers, and then receive a sales commission, while the tour is carried out by the Wholesaler. Cross-cultural communication occurs both local culture in Indonesia and with culture abroad if the business carried out by its tour operator for foreign tourist business, domestic wholesaler or retailer, having business relations with wholesalers or BPW abroad, who market and sell tourism products offered by Indonesian Tour Operator companies. Tourism products in the form of tour packages, usually arranged jointly by Tour Operators in Indonesia with Tour Operators from abroad (Yunus et al., 2020).

Binus applies several courses with the DINE (Delivery in English) system, this also helps the respondent in some of their activities to be conducted in English conversation. This is in line with research which stated to bring local culture in English Language teaching would build up learner's cultural knowledge, awareness, and competence. The teaching of writing gave advantages to the students to have many ideas in introducing their own culture. This proved that by raising local culture, the respondent could improve their social status because it allows them to be more creative and have their own characteristics in cross-cultural communication interaction (Willyarto, Yunus, et al., 2019). The process of learning to think critically and creatively needs to be taught early on at home or in educational institutions. Learning activities that are presented / given need to be integrated in daily activities. A conducive atmosphere needs to be designed well so that children have the freedom to explore, ask questions, and express opinions. Strengthening support for success is needed as motivation for children to move forward. So that children feel safety and comfort in learning. Parents & educators need to have a correct understanding of the nature of critical & creative thinking. One way to facilitate this way of learning is by putting students in the society directly to study and to interact with other culture. One thing for sure, to be able to do this, students are to master the language used by the society, in this case English as the international language.

Culture is, basically, a set of shared values that a group of people holds. Such values affect how you think and act and, more importantly, the kind of criteria by which you judge others. Cultural meanings render some behaviors as normal and right and others strange or wrong. Every culture has rules that its members take for granted. Few are aware of own biases because cultural imprinting is begun at a very early age. And while some of culture's knowledge, rules, beliefs, values, phobias and anxieties are taught explicitly, most is absorbed subconsciously (Wahyuningtyas et al., 2019). There are no people belong to the same culture are guaranteed to respond in the same way. However, generalizations are valid to the extent that they provide clues on what you will most likely encounter–and how those differences impact communication.

Inter-cultural interaction becomes branding about Indonesia. The face-to-face interaction events studied between Binus and ASU lecturers are indeed relatively short, but thanks to technology support, conversation and exchanging messages continued for some time after the meeting, mainly through social media Facebook. Thus, data can continue to be collected, one through the media messenger and about

the status and comments posted on Facebook. Cross-cultural communication between Binus lecturers and Appalachian State University lecturers through the stages of the structural level outbreaks, down to the social level and subsequently the outbreaks occur individually (Yunus, Wahyuningtyas, & Willyarto, 2019). The outbreak has also succeeded in creating a positive branding about the Indonesian state through their social media.

Based on the research by Pezhman Zare and Mohammad Javad Riasati, there are two choices to facilitate the students' language learning to greater heights. It can help students learn to cope with the existing anxiety provoking situations and make the learning context less stressful (Zare & Riasati, 2012). While learning or working with people from different culture one can lessen the anxiety by time, then involve in the more conducive situation to communicate better with the international language. Mingling with friends from various backgrounds will also lessen the stressful context of learning.

ENGLISH LANGUAGE LEARNING AS FOREIGN LANGUAGE IN INDONESIA

English has become popular especially in Indonesia because of its existence as an international language and generally in countries that do not use English as a mother tongue. This makes the need to learn English to be inevitable. In the field of education in Indonesia, English is taught from an early age in formal education to higher education at the university. A new challenge for teachers, educators and educational institutions in developing innovative English learning methods to prepare learners for their future of the globalization era (Willyarto et al., 2018). Another related problem was the difficulty of job seekers in answering common job interview questions in English. The language learning itself was about getting used to speak, listen, read and write in daily basis. Communication with others in English will be able to increase one's ability to master English. The daily communication could be one way to practice the language. Therefore, the interaction with other people from different countries and languages in English, would be able to support the English learning.

A research about English learning model was conducted in Binus University shown that teaching model that engage students to be more active during the lesson, would improve their motivation to perform better and put creativity for the performance. The job interview role playing model was one of interactive method in learning, was proven giving students more opportunity to explore deeper into their mind and creativity in using English to communicate. It was also motivating students to show a fully performance and not only giving answer by the book. The teaching model was giving lecturer to deliver an interactive method that centering on students not teacher-based method. The students were also given the opportunity to practice English with their partners in the class or even at home. By giving interesting learning activities, students were motivated because they were engaged. The confidence on English speaking was improved because students were using English more and more. The activity was giving students the opportunity to experience the job/work interview so that they will not as nervous as the first time, especially when they are facing the real job interview (Willyarto et al., 2018). The question and answer session during job interview is one of the interactions between people from different culture. While learning English (in this research), students should practice their English in job interview circumstance. They were given times to practice independently with their friends, parents or even with others from English-speaking countries. When they have time to practice with overseas friends, they were having time to interact with people from different countries and cultures. They shared values, learnt

from others that brought positive impact for themselves. When they are facing the real job interview later, they would be able to communicate well in English and interact with different cultures as well.

Students' behavior generated by a particular stimulus. This stimulus will lead to responses occur automatically. The process of stimulus respondents in shaping behavior occurs systematically, namely a new stimulus coupled with a stimulus that is already generating a response that in turn creates a new stimulus that provokes the response. Nativism theory, initiated by Chomsky (1975) in (Oktriono et al., 2017), is based on the default language in humans. Based on his observations, Chomsky believed that the default language (language faculty) which is genetic, a component in the human brain is a specific form of grammar that can be traced humanely. Therefore, the expression "language is the mirror of the mind" implies a deeper meaning and significance.

Languages has four functions: cognitive, instrumental, integrative, and cultural. The cognitive function relates to the learners' intellectual development, capacity to think rationally, and the medium of storing and retrieving knowledge. Next, the instrumental function expresses the fact that the language is used for material gains, i.e., to get a job, to engage oneself in business, to obtain scientific information and technological skills, and the like. The integrative function means that to make oneself accepted as a member of the group using the language as a symbol of identity, the language, therefore, is necessary. The cultural function expresses that the language enables oneself to gain a deep understanding and appreciation of the culture to which the language belongs (Sidupa et al., 2019).

One method of language learning is Contextual Teaching and Learning (CTL). The CTL method is a learning concept that helps teachers relate between the materials taught to the student's real situation and encourage students to make connections between their knowledge and application in daily life. The background of applying this CTL method is because students can practice directly outside the classroom. Teachers can instantly bring students to the real situation of what they learn in the classroom or called as a contextual learning method. Especially when learning to speak, the meaning of speech in the Indonesian language is very dependent on the context of the conversation. The practice in the classroom will be different when the students talk to the merchant in the market or even on public transportation. Therefore, it takes real learning that students feel directly the desired context. If the topic is about bargaining, then the students are invited to directly bargain with the merchant in the market. If the topic is learning about public transportation, then students are invited directly to feel up and down in public transportation (Ningsih et al., 2019). By bringing students/people to the real situation in their live, they learn to develop their ability to communicate well, in this case is English.

A previous research done in Binus University showed that all of the respondents had similar argument, that the presentations were giving the advantages for them, such as long endurance of understanding, developing self-confident, teaching public speaking skill, nervous handling and avoid boredom. It was all the experience of students while having a visual aid presentation during their study in certain topics. The presentation itself was expected to be interested and meaningful, and surely the role of teacher would be a great support to encourage students to develop an interesting and meaningful visual aid presentation. Yet, this idea can be implemented on the next research. The teacher is the most critical factor in classroom learning. The teacher organizes, manages, motivates and leads (Willyarto, Werhoru, et al., 2019). While interacting by doing visual-aid presentation, students/people learn how to communicate well especially in English as a foreign language for Indonesian people.

ENGLISH COMPETENCY IN CROSS-CULTURAL COMMUNICATION

Based on research done by Ulani, et.al., it could be concluded that cross-cultural communication in Binus has succeeded in bringing change into a better life of respondents. Learning about people's cultures has the potential to give a mirror image as the opportunity to challenge how to learn new ways to solve problems that previously had given up on. People can accept the difficulties as "just the way things are". Then, raising the local culture can improve the social status because it allows to be more creative and have their own characteristics. The model cross cultural communication could improve the quality of social education in Indonesia in terms of cultural interaction in many aspects. Working and studying tradition in Binus was supporting Binusians to improve themselves by interacting with people from different countries and communicating between cultures to face a better future as the citizen of the world (Willyarto, Yunus, et al., 2019). Surely, all communication was done in English, so to be able to bring change in a better life implied the meaning that one was able to communicate in English well. While communicating in an understandable English which was requiring the speaking and listening well, thus, to be able to gain a better life, one must be able to communicate well in English. If the communication went well, surely all parties could be able to get better life in general. It was also implied that the improvement in English communication was pushed by the need to interact with people from different countries and languages.

Another research that was done in Binus University as well, came up with the conclusion: cross-cultural communication in Binus was not only at national level culture but also at international level. The tour operators and wholesalers abroad were, in the field of marketing, selling overseas, then brought tourists to Indonesia. To master operations, how to market tourism, students were equipped with courses: hotel management, tourism destination and planning management and marketing in tourism. It was as if to sharpen their culture to be equipped with courses, philosophy, Indonesian culture, history and heritage. To be able to interact with foreign cultures they were equipped with foreign language such as Japanese, Mandarin, French, Korean and Arabic languages. Most exams were given in case studies. Thus, besides mastering the theory, Binus students were also expected to be able to become problem solver in tourism cases (Yunus et al., 2020). It is implied that communication was done with people across countries or internationally. The need to be able to communicate in English was becoming important and urgent. The relation between cross-cultural communication and foreign-language learning was shown by the interaction between students from different countries, languages and cultures. While having the interaction, students were given enrichment from the university in languages courses. The interaction would improve their language skills, either academically or practically. It is more like two sides sword, either the interaction would give advantage to the language learning or the language learning would support the interaction between cultures.

Pragmatic awareness must be developed of learners by discussing relationships status between the interlocutors and by comparing the differences, as well as the similarities between the ways English speakers in the clips performed any given speech acts and the way learners would do so. This kind of activity would help learners realize that speakers from different cultures may not always share the same sociolinguistic rules of performing speech acts as their own (Prachanant, 2016). By interacting with people from different culture and language, students learnt how to communicate well while respecting differences, using English as the international language. Even though the same language (English) was used, but the culture differences would make different meanings or understanding.

Some researchers demonstrated, the cultural shift was conducive to the emergence and flourishing of democratic institutions. The study proved that cross-cultural communication created a prosperous social structure, successful in creating the value of groups to have better social structure. The looking at culture as the reason for academic achievement might become a self-fulfilling prophecy. This was to make the Master Plan for the Acceleration and Expansion of Indonesian Economic Development (MP3EI) 2025. The concept of culture has attracted more economists around the world. The capabilities of the institutions could be disaggregated into individual, social and structural capacities. There are many universities have the program called students exchange, a program that send students to other countries to learn. It emphasizes that student exchange programs and international internships are very helpful in providing students with experience and first-hand knowledge of (Willyarto, Yunus, et al., 2019). Sending students abroad or receiving foreign students to study in a university, is one way to learn multiculturalism and other culture to create a new blended or diffuse culture in supporting the improvement of individuals to work and study. This showed that by learning together with others from different countries, languages and cultures would give benefit for students. They must be able to agree on using the same language, English as the international language. Therefore, by talking, discussing, listening, and writing English frequently, would make one learn from each other and boost up their language skills. Their confidence would improve well because they were used to speak, listen, read and write in English.

The modern education paradigm emphasizes honoring the learning process. Appreciating the learning process can be done in various ways, such as: giving students the opportunity to ask questions, providing positive reinforcement (positive reinforcement), respecting student creativity, and others. Thus, it can be clearly seen, that in modern education, educators are not the "power", the "expert", and are not the only role models in learning. Educators need to be aware of this paradigm shift by wanting to open themselves consciously and voluntarily to all new information and knowledge in order to develop the learning process that it supports. The learning process in the class is presented by educators with different concepts. The way of learning of students also changes a lot. Students who used to only listen to lecturers' lecture only, now need to be more active in exploring knowledge through all the sources that might be obtained. The process of disciplinary education also experienced a shift. Students become less independent in managing their learning, because of the great tolerance given by educators or educational institutions even by their parents. Students who lack the correct knowledge about independent learning, will have difficulty adapting, especially in dealing with or solving complex problems in their daily lives. Behavioristic learning processes (conditioning of learning situations) and constructivist (developing knowledge through personal experience) begin to enter classes in educational institutions. Educators need to understand how to manage student-based classes (student centered) (Willyarto, 2019). As suggested by Hofstede, it is important to learn about culture in order to appreciate what implications these differences in culture can bring to bear on the teaching and learning processes. In sum, teachers need to get "intellectually and emotionally accustomed to the fact that in other societies, people learn in different ways" (Omidvar et al., 2012). It is needed for learners, especially English language learners, to learn from others whose mother tongue is English. By doing that, the learning process by observing and discussing were done automatically. As stated above, one must be very careful while interacting with different cultures to avoid misunderstanding.

SOLUTIONS AND RECOMMENDATIONS

The research showed that complete understanding was rational agreement, a comprehensive overlap of beliefs regarding a topic of discourse. It followed that the process of understanding should be thought of as a gradual uncovering of another person's beliefs, and that a good understanding of another person presupposed that there was a significant overlap of common beliefs. Correspondingly, if communicators had very different beliefs about a topic of discourse, then the chances of achieving successful communication about that topic of discourse were radically impaired. People needed to share many more beliefs in order to communicate successfully, and this condition was probably not met. However, the problem related to personal values was even more fundamental. When two persons shared a belief, it was because they had a belief involving the same representation of the world. If personal values were relations, not to representations, but directly to the ways to live the lives, then they could not be shared at all. Every aspect of global communication was influenced by cultural differences. Even the choice of medium used to communicate may have cultural overtones (Wahyuningtyas et al., 2019). The research emphasized on the choice of medium (language) in order the good interaction to be made. Again, the choice of English as international language seemed rational for this time. It does not mean that using other language cannot create a good interaction. It showed the interaction between cultures using the agreed language would increase one's skills in mastering the chosen language. In the respective research, was English. According to the analysis, to understand what personal values a person has is tantamount to understanding how he wishes to live his life, and this is not a matter of understanding what thoughts and beliefs he has. The fact that persons from different cultures typically live their lives insignificantly different ways means that it is especially important to focus on these values in real-life interaction. How people interact with different cultures, either to adapt or to conform, is a part of learning, especially language learning in order to be able to communicate and share values with others.

Based on the research results, it is recommended that the English learning process must be taken to the real situation where people are communicating in daily basis. By doing it, it is expected that students will be able to improve more especially in practical such as speaking and writing. This model of learning would also be a solution for learning second/foreign languages in general.

FUTURE RESEARCH DIRECTION

The current goals are to create basic model of cross-cultural communication of educational institutions, micro, small and medium enterprises (MSMEs) and Tourism Villages. The future goals are to build model concepts of cross-cultural communication through technology applications, application of cross-cultural communication models in education, application of the cross-cultural communication model in the MSMEs and Tourism Villages, application of diaspora cross-cultural communication models. The following would be the grand design of researches to develop Indonesia's cross-cultural communication model in Asia, Australia, Europe, USA and Africa.

CONCLUSION

In order to be able to communicate well with people from different countries, languages and cultures, it should be agreed that they will use one language. The international language used by most people in the world now is English. Facing this era of globalization, Indonesian people need to improve their English skills. On way to boost up the English skill is by interacting with people using English. Cross-cultural communication between people different cultures could create a circumstance to develop foreign-language learning (English) for Indonesian people. With the references from several researches conducted in Indonesia, it could be concluded that the process of foreign-language learning (English) was also driven by communicating with people in English to support one's personal development and professional works. The result of this research could be used for the future research by broadening the scope of research. The next research could be done in several international institutions or even in other countries that has English as their foreign language.

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Chapter 38
Taxation Chapter in Turkey's Europan Union Membership Process

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ABSTRACT

With the signing of the Ankara Agreement in 1964, Turkey established economic relations with the EU of today for the first time. The EU candidate status was granted in 1999 and negotiations started in 2005. There are 35 chapters in the EU full membership process. One of the chapters is the Taxation Chapter. The aim of this study is to examine the taxation process between EU and Turkey. In this study, document scanning method has been used. In this context, Ankara Agreement, Financial Protocol, Provisional Protocol, Additional Protocol, Progress Reports, and Screening Meetings have been comprehensively screened. At the end of the study, the taxation provisions of the two parties have been set out in detail.

INTRODUCTION

The first economic relations between the EU and Turkey were established by the Ankara Agreement in 1964. This agreement led to the signing of a partnership agreement with the European Economic Community (EEC). The purpose of the Ankara Agreement has been identified as raising the rapid development of Turkey's economy and living standards. In addition, the removal of customs duty between the two parties has been included in the articles of agreement as the most important objective. In this partnership, it was decided that three different phases will be applied, namely, the preparation period, the transition period and the final period. The preparation phase ended in 1973 with the Additional Protocol Agreement and the transition period began. So far in the relations between the EEC and Turkey, the Common Customs Tariff was adopted. The transition period lasted 22 years. With the entry into force of the Customs Union Agreement in 1996, the last period began. It was signed between the EU and Turkey in 1996, and the processed agricultural products and industrial goods with the Customs Union has been seen as a turning point.

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In the Helsinki summit of 1999, Turkey were granted the status of EU candidate. In this context, Turkey's continued membership lasting 40 years strenghtned its position. In 2004, Turkey has been considered to provide the Copenhagen political criteria. So, it was decided to start accession negotiations on 3rd October of 2005. On this date, Turkey appointed a chief negotiator in the EU accession relations and the EU officially began accession negotiations with Turkey. There are 35 chapters in the EU accession negotiations. Chapter 25 was the first chapter opened at the Luxembourg Conference in June 2006. This chapter's name was Science and Research. This chapter was temporarily closed on the same day. Negotiations started for a total of 16 chapters, most recently in June 2016. Only one of the negotiations has been temporarily closed and the others have not yet developed.

One of these chapters is the Taxation Chapter, which is Chapter 16. The taxation chapter was opened to negotiations on 30th June 2009, during the Presidency of the Council of the EU in the Czech Republic. This study focuses on the harmonization of the Turkish Tax System with the EU tax system. Therefore, Chapter 16 has been examined in detail. The aim of this study is to examine the history of the chapter taxation between the EU and Turkey and analysethe last point, the harmonization in terms of Turkish Tax System. In this study, document scanning technique has been used.

SIGNIFICANT EVENTS IN THE HISTORY OF EU-TURKEY RELATIONS

There are ancient historical relations between Anatolian states and Europe. In 1923, with the establishment of the Republic of Turkey, a new page in relations with Europe was opened. Turkey was a member of many international organizations, especially for the purpose of developing international trade in our country. One of these organizations was the European Economic Community. The European Economic Community (EEC) was established in 1958. Turkey also sees advantages to be in this relationship with Europe. This agreement was the first relationship between Europe and Turkey in an economy context.

Ankara Agreement (Preparation Period 1964 – 1972)

On 31st July of 1959, Turkey's Prime Minister Adnan Menderes applied to EEC for partnership. At that time, Turkey's application was accepted. The Ankara Agreement was signed in 1963 and entered into force in December 1964. In the same year, Greece's application to the community was accepted too. However, Greece immediately began to implement a common customs union with the EEC Uysal, 2001). In fact, the Ankara Agreement was a roadmap rather than an actual implementation. The road map has 3 periods. This roadmap, includes the preparation period, the transition period and the last period. The preparation period is discussed under this section.

According to the agreement, the preparation period would last for five years. Due to the prolongation of the negotiations, it took 8 years from 1964 to 1972. During this period, the EEC committed to strengthening the Turkish economy and facilitating the transition to the Customs Union. Also during this period, the EEC would apply preferential tariffs for some agricultural products, thus comparative advantages for Turkey and would contribute to Turkey's development (Tuğrul, 1995). During this period, Turkey partly fulfilled commitments of the EEC.

Ankara Agreement consists of three parts. In addition, a provisional protocol, a financial protocol and a final act were signed under this agreement.

- Title I (1-7. Articles)
- Title II (8-19. Articles)
- Title III (20-33 Articles)
- Provisional Protocol
- Financial Protocol
- Final Act

The first title contains seven articles and regulates the preparation period. The first title of the agreement contains very general information. The purpose, duration and roadmap of the agreement were set out in this title. There are three sections in the second title. These sections are customs union, agriculture and other economic provisions. This title contains twelve articles and regulates the transition period. In the third title, there are general and final provisions. This title consists of fourteen articles and regulates the last phase of the roadmap.

Additional Protocol (Transitional Period 1973 – 1995)

The second phase is the transition period between Turkey and the EEC. The transition period began in 1973 with the entry into force of the Additional Protocol. There was no liability for Turkey in the preparation period. However, in order to strengthen the economy in the transition period, Turkey fulfilled some obligations with the help of the community (Koçak, 2009). In this process, the main goal was the approximation of ecomic policies between Turkey and EEC. During the transition period, the EEC abolished customs duties on Turkish industrial products, excluding cotton and refined petroleum products, and facilitated the importation of certain agricultural products (Uysal, 2001).

The Additional Protocol is more comprehensive than the Ankara Agreement. Through the EEC, common tariffs were adopted for some products. The addition protocol consists of four sections and 64 articles.

- Title I (2 – 35. Articles) ® Free Movement of Goods
- Title II (36 – 42. Articles) ® Movement Of Persons and Services
- Title III (43 – 56. Articles.) ® Competition, Taxation and Approximation of Laws
- Title IV (57 – 64. Articles) ® General and Final Provisions

In the first title, Free Movement of Goods is regulated. Customs union, elimination of quantity restrictions, common agricultural policy and agricultural policies were regulated in this section. The subject of taxation is mainly in the third part.

Customs Union (Last Period)

With the establishment of the Customs Union, the planned transition period between the two sides was completed. The most important issue that was targeted by the Ankara Agreement was the transition to a common customs union system. The Customs Union entered into force in 1996. The Customs Union Agreement consists of 66 articles. There are six sections in this agreement.

Free movement of goods and commercial policy

- Elimination of customs duties and charges having equivalent effect

- Elimination of quantitative restrictions or measures having equivalent effect
- Commercial policy
- Common Customs Tariff and preferential tariff policies
- Processed agricultural products not covered by Annex II to the Treaty established in the European Community

Agricultural products

Customs provisions

Approximation of laws

- Protection of intellectual, industrial and commercial property
- Competition
- Trade defence instruments
- Government procurement
- Direct taxation, Indirect taxation

Institutional provisions

- The EC-Turkey Customs Union Joint Committee
- Consultation and decision procedures
- Settlement of disputes
- Safeguard measures

General and final provisions

This is the general outline of the customs union agreement. In 1993, the European Community was revised as the European Union. After this date, Turkey's interlocutor was not AT, but EU. IN the first yeas of negotiation between Turkey and EU, the former had not met the candidate countries. This situation continued until the 1999 Helsinki summit.

Candidate Status (Helsinki Summit)

Turkey was given candidate status by the EU in Helsinki in 1999 (Akçay, 2008). This was influenced by the introduction of more moderate governments in Germany and France. Turkey's candidacy application was made in the context of the EU's enlargement strategy of 1996. After the application, it was emphasized that Turkey should comply with the Copenhagen criteria. In Helsinki, the EU reported that Turkey can enter into negotiations if Turkey satisfies the political criteria (Özer, 2009). Significant progress has been made in the 40-year European journey.

Negotiaion Process (Brussels Summit)

After gaining candidate status, it was necessary to ensure the political criteria for entry into negotiations. During the Brussels Summit in 2004, referring to the report submitted by Turkey, it was decided to open negotiations with Turkey. Accordingly, on 3 October 2005 the EU started negotiations with Turkey. "Science and Research" was the chapter that entered into negotiation. Everyone hoped that progress will go on in other chapters too. However, there was no expected progress in the following periods. Chapters, opened for negotiation have been held for a long time. The main reason for this is thought to be political reasons rather than non-compliance with the acquis.

Visa Exemption Process and Readmission Agreement

One of the important events between EU and Turkey is the visa exemption process. Visa exemption has not yet been granted. However, the first basis of this issue was signed on 16 December 2013. These were Memorandum of Understanding for Visa Freedom Dialogue and Readmission Agreement. The EU closed to the subject of visa exemption afetr the coup in Turkey in 1980. Thirty three years later, the visa exemption process was paved with this agreement and an important step was taken to remove the Schengen visa barrier. Visa exemption is subject to the readmission requirement of refugees. Although some regulations have been put in place until 2019, visa exemption has not been achieved yet.

CHAPTERS IN EU MEMBERSHIP PROCESS

The Copenhagen criteria are the prerequisites to enter into negotiations for the candidate countries. The Copenhagen criteria are grouped under three main headings (Çarıkçı, 2008).

- To ensure the stability of institutions guaranteeing democracy, legal order, respect for human rights and the protection of minorities,
- The existence of a functioning market economy capable of adapting to competitive pressure and market forces within the Union,
- To have the ability to fulfill the obligations of membership, such as participation in political, economic and monetary union.

Candidate countries that fulfil these requirements will be able to start the negotiation process. Since Turkey fulfilled these conditions, negotiations were initiated in 2005. Negotiations in the EU are conducted through chapters. There are 35 main chapters in EU membership. These chapters are shown in the Table 1 below.

As stated in Table 1, the negotiation process starts from the first chapter "Free Movement of Goods" and continues until "Other Matters". Each chapter can be switched on and off at any time. There is no priority in the negotiations. There are five stages in the negotiation process (Sayın, 2016).

- Screening Process
- Negotiaion Positions
- Position Documents
- EU Common Poisition
- Accession Agreement

In the screening process, the EU acquis is reviewed analytically. Within this process, one investigates whether the legislation of the candidate countries is in line with the EU. At the end of the screening process, the EU Commission prepares a screening report for each topic. During the harmonization process,, each candidate country must prepare a negotiation position. Candidate countries that prepare a negotiation position, show what arrangements will be made in the process of harmonization with the EU acquis. Then, candidate countries submit their position documents to the presidency of the council of the EU.

Table 1. Negotiation chapters

1. Free Movement of Goods	19. Social Policy and Employement
2. Freedom of Movement of Workers	20. Enterprise and Industrial Policy
3. Right of Establisment and Freedom to Provide Services	21. Trans-European Networks
4. Free Movement of Capital	22. Regional Policy and Coordination of Structural Instruments
5. Public Procurement	23. Judiciary and Fundemental Rights
6. Company Law	24. Justice, Freedom and Security
7. Intellectual Property Law	25. Science and Research
8. Competition Policy	26. Education and Cultrue
9. Financial Services	27. Environment
10. Information Society and Media	28. Consumer and Health Protection
11. Agriculture and Rural Development	29. Customs Union
12. Food Safety, Veterinary and Phytosanitary Policy	30. External Relations
13. Fisheries	31. Foreign, Security and Defence Policy
14. Transport Policy	32. Financial Control
15. Energy	33. Financial and Budgetary Provisions
16. Taxation	34. Institutions
17. Economic and Monetary Policy	35. Other Issues
18. Statistcis	

Resource: https://www.ab.gov.tr/62.html

The EU Presidency submits the relevant position documents to the EU Commission for approval. The EU Commission converts these documents into the EU common position document and approves them. The Commission grants permission for the approval of the documents sent to the candidate countries and they enter into negotiations. With the opening of the negotiations, the EU acquis is transposed into the national legislation of the candidate country and the harmonization phase is initiated. The final stage is the Accession Agreement. With this stage, the chapters opened to negotiations are closed.

Final Situation in Negotiations for Turkey

The negotiation process started in 2005, but it has come to a halt in recent years. Some chapters have been opened, some have been blocked and some have not been opened for negotiation.

Table 2 shows the chapters which were opened for negotiation. Chapter 25 "Science and Research" is the first chapter opened for negotiation. This chapter was temporarily closed in 2006. Other chapters have not been closed yet. Until 2019, in total 16 chapters were opened for negotiation and only the "Science and Research" chapter was temporarily closed. The taxation chapter has also been opened. The most recently opened chapter is "Financial and Budgetary Provisions". Below is the information showing the dates of the 16 chapters opened.

2006 → 1 Chapter 2010 → 1 Chapter
2007 → 4 Chapters 2013 → 1 Chapter

Table 2. Opened chapters

25. Science and Research (2006)	10. Information Society and Media (2008)
20. Enterprise and Industrial Policy (2007)	4. Free Movement of Capital (2008)
18. Statistcis (2007)	16. Taxation (2009)
32. Financial Control (2007)	27. Environment (2009)
21. Trans-European Networks (2007)	12. Food Safety, Veterinary and Phytosanitary Policy (2010)
28. Consumer and Health Protection (2008)	22. Regional Policy and Coordination of Structural Instruments (2013)
6. Company Law (2008)	17. Economic and Monetary Policy (2015)
7. Intellectual Property Law (2008)	33. Financial and Budgetary Provisions (2016)

Resource: https://www.ab.gov.tr/files/5%20Ekim/yatay_muzakere_tablosu__30_06_2016.pdf

2008 → 5 Chapters 2015 → 1 Chapter
2009 → 2 Chapters 2016 → 1 Chapter

2007 and 2008 were the very important years in EU-Turkey relations. 9 chapters were opened in these two years. No chapters were opened in 2011, 2012, 2017, 2018. It is not known what will happen in 2019.

Table 3. Chapters of which opening benchmark is additional protocol

1. Free Movement of Goods
3. Right of Establisment and Freedom to Provide Services
9. Financial Services
11. Agriculture and Rural Development
13. Fisheries
14. Transport Policy
29. Customs Union
30. External Relations

Resource: https://www.ab.gov.tr/files/5%20Ekim/yatay_muzakere_tablosu__30_06_2016.pdf

In Table 3, there are 8 chapters whose negotiations are suspended according to the decision of the Additional Protocol. Pursuant to the decision of the EU General Affairs and External Relations Council of 11 December 2006, the implementation of the Additional Protocol was set as the opening criterion for 8 chapters. It was also decided not to close the other chapters with this protocol.

The Greek Cypriot Administration (GCASC) declared at its General Affairs Council meeting on 8 December 2009 that it unilaterally blocked progress in 6 chapters. Table 4 lists blocked chapters.

Five chapters are not subject to political blockage. These chapters are stated in Table 5.

Table 4. Chapters blocked by southern cyprus unilaterally

2. Freedom of Movement of Workers
15. Energy
23. Judiciary and Fundemental Rights
24. Justice, Freedom and Security
26. Education and Cultrue
31. Foreign, Security and Defence Policy

Resource: https://www.ab.gov.tr/files/5%20Ekim/yatay_muzakere_tablosu__30_06_2016.pdf

Table 5. Chapters without political blockages

5. Public Procurement
8. Competition Policy
19. Social Policy and Employement
34. Institutions
35. Other Issues

Resource: https://www.ab.gov.tr/files/5%20Ekim/yatay_muzakere_tablosu__30_06_2016.pdf

LITERATURE REVIEW

In this study, national literature has been generally used. Most of the studies about EU-Turkey relations are in the Turkish language. For this reason, national studies have been found to be sufficient in this regard. In the study, the literature has been examined according to the 4N1K literature survey model. Studies; author, date, purpose, method and result criteria have been analyzed.

AIM AND METHOD

Relations between the EU and Turkey are ongoing in the field of taxation. However, the relations could not reach the level of harmonization with the whole. Chapter 16 is not yet closed. The aim of this study is to focus on the taxation chapter in the framework of Turkey-EU membership negotiations. In addition, the revelation ofnthe progress in Turkey's EU membership process is most important outcome of this study. The tax process has been put forward between Turkey and EU.

FINDINGS

In this section, the provisions regarding taxation in the Ankara Agreement have been examined. This is because the Ankara Agreement constitutes the basis of relations between the EU and Turkey. In addition, the European Coal Steel Community (ECSC) Free Trade Agreement, signed in 1996, also includes issues related to taxation.

Turkey has six arguments as a basic document on EU relations taxation. Table 7 shows these arguments. The provisions on taxation between the two parties are contained in these basic documents. Firstly, the provisions in the agreements have been examined. Accordingly, the Ankara agreement and the ECSC Free Trade Agreement have been examined at lenght in the context of taxation.

Table 6. Turkey EU taxation relations literature

Author	Aim of Study	Method	Result
Çomaklı (2008)	The subject of the study is the arrangements made about tax evasion in Turkey's EU membership process. These arrangements were made in line with the progress reports.	*Literature Research	The indirect taxes scattered in accordance with the progress reports were corrected with the entry into force of the special consumption tax. However, many regulations should be made in order to eliminate informal economy.
Çelik, (2010)	The aim of this study is to highlight the EU's and Turkey's corporate tax practice and to determine what to do about tax harmonization.	*Literature Research	As a result, enacted in 2006, the Corporate Tax Law with Turkey has achieved a substantial compliance with the EU Corporate Tax.
Çelikkaya (2011)	The aim of the study is to evaluate environmental taxes in OECD countries and EU. The point about the environmental tax arrangements in Turkey has put forward one final point.	*Literature Research	In the study, it has been found that green tax and carbon tax were applied in EU and OECD countries. Turkey has signaled that it would make the tax arrangements in this respect when the Environment Chapter 27 negotiations opened in 2009.
Atsan and Mezararkalı, (2012)	The aim of this study is to compare the Turkish Tax System with the tax systems of 27 EU member states.	*Literature Research	As a result, Turkey had enacted Value Added Tax, Special Consumption Tax and Corporate Tax. In addition, the income tax has been regulated at some rates.
Çomaklı, Ayrangöl, and Tekdere, (2014)	The aim of this study is to examine the taxation issue in terms of the progress reports published under the EU-Turkey relations.	*Literature Research	In the study, Taxation has been shown to intervene in Turkey's harmonization process with a Taxation Chapter. Discrimination in indirect taxes and low direct tax revenues are important problems for EU compliance.
Yıldırım (2015)	The aim of this study is to question the appropriateness of the EU acquis Special Consumption Tax that Turkey started to implement in 2002 in the EU accession process.	*Literature Research	In 2002, the Special Consumption Tax was enacted. However, there is no complete agreement between the EU and Turkey on special consumption tax.
Keşmir (2016)	The aim of the study is to examine the issue of discriminatory taxation, which was first mentioned in the EU progress report published in 2015.	*Literature Research	Progress reports published between 2008 and 2015 had been analyzed. As a result, years of discriminatory taxation have been determined in the Turkish tax system in terms of VAT and SCT.
Batırel (2016)	The aim of this study is to examine both fundamentals of tax reform in Turkey and EU.	*Literature Research	From reaearch one notices that income tax is collected through labor. There is also no reform of direct taxes. This is the case in both the EU and Turkey.

Table 7. Provisions on taxation in the eu membership process

Agreements	Ankara Agreement
	(ECSC) Free Trade Agreement
Protocols	Additional Protocol
	Supplementary Protocol
Accession Partnership Documents	Four Pieces
National Programmes	Three Pieces
EU Commission Reports	Twenty one Pieces
National Action Plans	One piece (2016-2019)

Resource: https://www.ab.gov.tr/temel-belgeler_113.html

Ankara Agreement

In many places, the tax term draws attention in the Ankara agreement. However, the first important provision is included in Article 10. This is also the first section of Chapter 1 under the name of the Customs Union. Here, the scope of the customs union is expressed as; "*the prohibition between member States of the Community and Turkey, of customs duties on imports and exports and of all charges having equivalent effect, quantitative restrictions and all other measures having equivalent effect which are designed to protect national production in a manner contrary to the objectives of this Agreement"*.

In other words, it is envisaged that customs duties and other similar duties shall be abolished between the two parties in imports and exports. Art. 2 of the provisional protocol states the taxation provisions for tobacco products, raisins, dried figs and nuts. It is envisaged to apply an advolorem tax of 2.5% for hazelnuts and an equal customs duty for other products. The protocol covers Belgium, Germany, Italy, France and the Netherlands.

(ECSC) Free Trade Agreement

The agreement was signed in 1996 in Brussels. Article 3 of this Agreement contains taxation provisions in its entirety. In the first part of this article the following statements are included: "*Customs duties on imports or exports shall be abolished in trade between the Parties in the products referred to in Article 1 on the date of entry into force of this Agreement, save that customs duties in respect of imports into Turkey of those products set out in Annex II shall be abolished over three years beginning on the first day of the month following the date on which the Agreement enters into force pursuant to Article 20 in accordance with the schedule set out in Annex II, namely a reduction to 50% of the consolidated duties specified in Annex II during the first year of this Agreement and by way of a further reduction to 25% of those duties during the second and third years of this Agreement."*

The products referred to in this section provide a roadmap on how to remove the customs duty. In the second part of the article one finds: "*No new customs duties on imports or exports shall be introduced in trade between the Parties from the date of entry into force of this Agreement."* In the last part of the statement, the following is noted: "*Taxes, duties and levies other than customs duties, including all measures having equivalent effect, shall be abolished on both sides on the date of entry into force of this Agreement and shall not be reintroduced."* As can be seen, the free trade agreement provides for the abolition of customs duties in its entirety.

Additional Protocol

Article 2 of the Protocol mentions customs duties and charges having equivalent effect. Accordingly, it is stated that the goods on which customs duties are paid and other charges having equivalent effect are included in the scope of free movement. The Provisions of free movement shall apply to third countries and is stated in the following article. However, third countries are required to pay differential clearance taxes. If the customs duty reduction is below 20%, no deductible tax is charged. Articles 7 to 16 contain the provisions of the Customs Union. According to the protocol, the parties undertook not to impose new taxes other than the existing taxes and not to increase the tax rates. Moreover, existing taxes may be removed in time.

In another article, the tax reductions to be made by the parties towards each other are also taken into consideration. It is stated that the basic tax of each product will be reduced by 10%. It is envisaged that customs duties and other charges having equivalent effect shall be abolished no later than 4 years after the entry into force of the Protocol. The protocol also included provisions for the acceptance by Turkey of the common customs tariff. The most important part in the context of this study is the articles under the heading of approximation of taxation provisions. The Parties may not impose higher taxes on their national products, either directly or indirectly. In other words, the parties cannot provide protection for their products through tax.

Accession Partnership Documents

Until now, the EU has four Accession Partnership documents adopted in Turkey. The most recent document was adopted in 2008. In the partnership documents, short, medium and long term targets have been set. These documents also include provisions on taxation. For example, in the short term, one must, *"Start the alignment of excise duties and VAT, in particular in respect of rates, scope of exempt transactions, taxable scope and the tax structure; ensure that new tax measures comply with the principles of the code of conduct for business taxation and eliminate any discriminatory measures."* In 2003, related documents focused on the harmonization of the Special Consumption tax and the modernization of the tax administration. In the following years, it was stated that harmonization should be continued on VAT and SCT.

National Programmes

There were very short provisions on taxation in the 2001 national program. The most important issue at that time was the entry into force of the SCT law. As a matter of fact, the SCT Law No. 4760 was adopted in 2002. In 2003, national programs became more detailed in taxation issues. Under the heading of taxation, indirect and direct taxes were distinguished. In this title, significant amendments have been made to the excise duty and the VAT Law. The national program published in 2008 includes amendments to the tax legislation up to this year.

Progress Reports

Progress reports on Turkey's EU membership process shows their obligations and give importent information about the level of development. The first progress report is from 1998. The subject of taxation is specified as a section in the reports from this year to 2004, since Turkey had no entered into negotations until 2004. The wording of Chapter 16 was included in the 2005 progress report. For this reason, progress reports were analyzed by accepting the year 2005 as a turning point.

As can be seen, until 2005, the negotiations began actively but progress on taxation remained limited. The Community did not find these changes sufficient. Progress reports were prepared in Chapter 16 in 2005 and since Turkey has made important strides in becoming members, negotiations began. Table 9 analyzes the taxation chapter in the progress reports published since 2005.

Table 8. 2005 progress reports before 2005

1998	Although the enforcement of the VAT law in 1985 was expressed as a positive development, it was criticized that the VAT exemptions were more comprehensive than the community. The Turkish tax system also does not allow VAT refunds to narrow taxpayers.
1999	It was stated that the necessary changes in VAT had not been made yet and that special consumption taxes were not in the Turkish tax system.
2000	Although it was stated that a change is made in the VAT exemption on imports, it has been found to be quite inadequate by the community. The need for rapid alignment of the acquis and the Turkish tax legislation was emphasized.
2001	Regulations on SCT applied to fuel are positive. However, SCT for tobacco and alcohol products should be regulated.
2002	Turkey has made significant progress in indirect taxation. For example, VAT refund is paved to narrow taxpayers. In accordance with the acquis, 26% and 40% rates were abolished. Significant progress has been also achieved in the harmonization of SCT.
2003	In particular, specific taxes should be imposed on cigarettes. In addition, VEDOP is introduced in tax administrations.
2004	Since the last progress report, progress has been limited. No progress can be reported on direct taxation.

Resource: https://www.ab.gov.tr/ilerleme-raporlari_46224.html

In the two tables above, 21 progress reports have been examined. EU taxation process consist of indirect taxes, direct taxes, Turkish tax administration and use of technology. According to reports, one notes that harmonization in indirect taxes has reached significant levels, but discriminatory taxation continued especially on alcohol and tobacco products. It has been emphasized that the regulations on direct taxes are insufficient but the E-invoice system is in the Turkish financial regime and the tax administrations have adopted the automation system.

National Action Plan

The Taxation Chapter entered into negotiations on 30 June 2009 at the Presidency of the Czech Republic. There are three important criteria, namely;

- Turkey has made significant progress towards KDV and SCT being harmonized. In other areas, it should provide a detailed timetable for full alignment with the acquis. It has to implement the 2009 Action Plan in accordance with the commitments undertaken in this plan and the timetable set. It should abolish discriminatory taxation practices on alcoholic beverages, imported tobacco and imported cigarettes by fulfilling the dates specified earlier in this plan.
- Turkey must demonstrate, in relation to national tax legislation, that it has sufficient administrative capacity, tax authorities and the necessary infrastructure to control the taxpayer and the level of tax collection. Turkey should be equipped and have made all necessary arrangements to be operational together with the membership.
- Turkey should provide a comprehensive and coherent strategy for the Commission to link computing systems.

Table 9. Progress Reports for 2005 and After

2005	It was stated that the Turkish financial regime is partly in line with the acquis. The taxation provisions that contradict the rules of the Customs Union and the World Trade Organization should be abolished.
2006	The introduction of a discounted rate of 8% VAT on textile products further excludes indirect taxes from the acquis. There has been no progress in SCT. Turkey has not yet introduced a tariff for domestic movements and fiscal warehouses suspension regime. Discriminatory tax on alcohol products should be removed immediately. The corporate tax has been further harmonized in terms of company division. The Revenue Administration became operational.
2007	There has been no significant change from the previous report.
2008	The SCT applied to imported alcohol products is higher. This discriminatory effect is not in line with the acquis, the Customs Union and the WTO rules. The elimination of discriminatory taxation practices is key to achieving progress in the accession negotiations of this chapter.
2009	Different VAT rates should be applied in wholesale and retail sales. Furthermore, further alignment is required in respect of exemptions, special applications and discounted rates. With the adoption of an Action Plan setting out clear targets for the gradual abolition of discriminatory taxation on alcoholic beverages and imported tobacco on 18 May 2009, some progress has been made on special consumption taxes.
2010	Turkey's value added tax legislation is not fully compatible with the acquis. Further harmonization of the structure, exemptions, special plans and practices with respect to discounted rates is required. Some progress can be reported on special consumption taxes. No progress can be reported on direct taxation. The Income Tax Law is being reviewed. Automation of the tax rulings has been an important step in increasing the transparency and consistency of Turkey's tax legislation.
2011	There has been no significant change from the previous report.
2012	A discounted rate of 1% on the value-added tax was brought back for a number of goods and services. The introduction of the third VAT rate is a regressive movement in terms of the alignment of the tax structure with the EU acquis. The Tax Inspection Board Regulation sets out the working structure of the Tax Inspection Board. The consolidation of tax audit functions within the Ministry of Finance is a positive step in ensuring consistency in the planning and implementation of tax audits.
2013	Turkey applied for the eventual removal of discriminatory practices in taxation on tobacco and this decreased by 50%. In 2013, special excise tax was applied to cigarettes. However, there are still differences between the Turkish legislation and the EU acquis in terms of the structure of the excise tax on tobacco and tobacco products and the method of determining the amount of tax.
2014	The Draft Income Tax Law is still under review in the Turkish Grand National Assembly. Efforts continued to strengthen the tax administration, fight against the informal economy and increase voluntary compliance. As a result, the preparation in this chapter is relatively advanced.
2015	Turkey is partially prepared in the field of taxation. Some progress can be reported in the area of special consumption tax and enforcement capacity. Turkey, with regards to excise tax on alcoholic beverages must adapt to the 2009 Action Plan. It should harmonize the excise tax legislation on energy products with the EU acquis. The mismatch between the excise tax legislation on energy products and the EU acquis on issues such as relative taxation has not been resolved.
2016	Turkey is partially prepared in the field of taxation. No progress can be reported on tobacco products. Next year, Turkey must take decisive steps, especially regarding excise duty applied to alcoholic beverages. No progress can be reported in the area of direct taxation. No progress can be reported in the area of administrative cooperation and mutual assistance.
2018	Turkey is partially prepared in the field of taxation. No progress has been made in this area, except for the ratification of the 2009 Action Plan on tobacco products and the Mutual Administrative Assistance Convention on Tax Matters. In relation to the range of energy products subject to SCT, it is necessary for Turkey to converge with the EU acquis. It should also completely remove the discriminatory excise taxes on alcoholic beverages and tobacco. It should address the shortcomings identified in the Global Forum on Information Exchange and Transparency and the shortcomings in tax regimes considered potentially harmful.
2019	Turkey is partially prepared in the field of taxation. Some progress has been made in this area, in particular with the abolition of the regional headquarters regime, changes in the technology development zones regime, and improvements made under the 2009 Action Plan on the excise tax on alcoholic beverages. Turkey has ratified the Convention on Mutual Administrative Assistance in Tax Matters OECD. It has also signed the Multilateral Competent Authority Agreement under the OECD Automatic Information Exchange standard. Not all last year's recommendations have been adequately addressed. In 2017, the e-invoice system was used by 72,000 taxpayers. Efforts are underway to establish an integrated public financial management information system.

Resource:https://www.ab.gov.tr/files/AB_Iliskileri/Tur_En_Realitons/Apd/Turkey_APD_2001.pdf

CONCLUSION

There have been important milestones reached between the EU and Turkey. The first relationship began with the Ankara Agreement signed in 1964 during the Adnan Menderes era. The Ankara Agreement, which is a roadmap, consists of three periods. The first period was a preparation one and continued until 1979. The second period started with the Additional Protocol signed in the same year. The Additional Protocol is named as the transition period in the legislation. The content of the Additional Protocol was mainly composed of free movement of goods, free movement of persons and the harmonization of economic policies. The Customs Union which entered into force in 1996 started the last period. Customs union is more comprehensive than previous periods, since there were not many issues in the Additional Protocol.

1999 was a year of historical importance for Turkey, having gained candidate status. In 2004, the EU and Turkey entered into negotiations. Negotiations have actually started in 2005. There are 35 chapters to be negotiated. The first chapter, entered into negotiation in 2006, is the Science and Research Chapter. Until 2019, 16 chapters were opened. Although some of these chapters have been closed, most of them are still open. Some chapters are blocked. Chapter 16 is Taxation. Negotiations on the taxation chapter started in 2009. However, for some reason, this chapter is still open.

In this study, Turkey-EU relations have been examined in terms of taxation. When the literature is examined, six main arguments have been determined related to this topic. These arguments are agreements, protocols, accession partnership documents, national programs, EU commission reports and national action plan. The aim of this study is to determine Turkey's accession path towards the harmonization of tax legislation. Document scanning technique has been used in the study. These arguments which are basic documents, have been examined extensively. Progress reports produced by the EU have shed significant light on the taxation process, since progress reports indicate the last point in Turkey's EU harmonization process.

Accordingly, Turkish tax legislation has come closer to the Union in the context of EU criteria. Particularly in terms of indirect taxes, a significant distance has been covered. However, it can be stated that there is still no full compliance regarding the discriminatory SCT on alcohol and cigarettes. Furthermore, criticism arose since harmonization on direct taxes was referred to the parliament but the necessary steps were not taken. As a result, it has been observed that due to a number of irregularities, chapter 16 is among the titles that have not yet been closed. There has been a positive development, in that the draft law that provides for harmonization in direct taxes has been referred to the parliament. However, there has been criticism that the necessary steps have not been taken yet.

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