

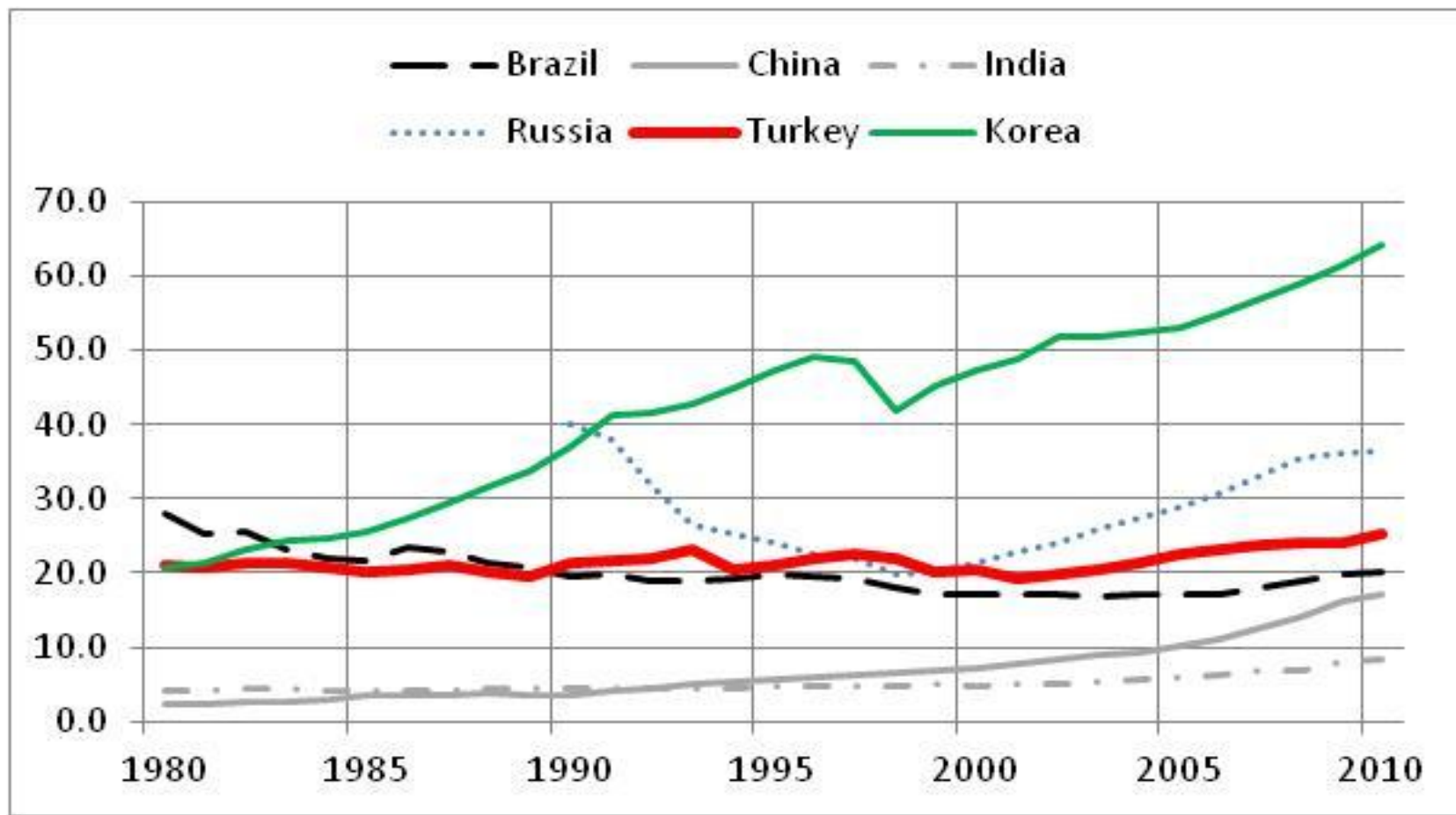
# Discussion

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# Lack of convergence



# Unsustainable high growth period: 2002-07

	1990-2001	2002-07	2008-12
World	3.1	4.5	2.9
Emerging market and developing economies	3.9	7.2	5.6
Central and eastern Europe	1.9	5.7	2.2
Commonwealth of Independent States	-1.6	7.6	2.4
Developing Asia	7.2	9.2	7.9
ASEAN-5	4.9	5.7	4.8
Latin America and the Caribbean	2.8	4.1	3.3
Middle East and North Africa	4.3	6.4	4.5
Sub-Saharan Africa	2.6	6.4	4.8
<b>Turkey</b>	3.4	<b>6.8</b>	3.2

## To have a sustainable high-growth period...

- By increasing domestic savings (and investments), a high growth episode can be obtained.
- However, high growth periods are not sustainable with few exceptions: *Hausmann et al. (2005)*.
- *Eichengreen et al. (2013)*: Slowdowns become less likely as
  - the level of secondary and tertiary education raises: high quality human capital matters more than low quality human capital,
  - high-technology export ratio rises.

# Convergence?

	Brazil	China	India	Russia	Turkey	Korea
Average years of schooling for population aged 15 and over in 2010						
Total	7,54	8,17	5,13	11,52	7,02	11,85
Secondary	2,12	2,88	1,64	4,82	2,32	4,95
Tertiary	0,24	0,29	0,18	1,59	0,29	1,13
Percentage ratio of high-technology exports to manufactured exports						
1990-99 average	6,6	11,3	5,3	10,8	1,8	23,6
2000-09 average	14,0	26,2	6,6	12,0	2,3	31,3
2010	11,2	27,5	7,2	8,8	1,9	28,7

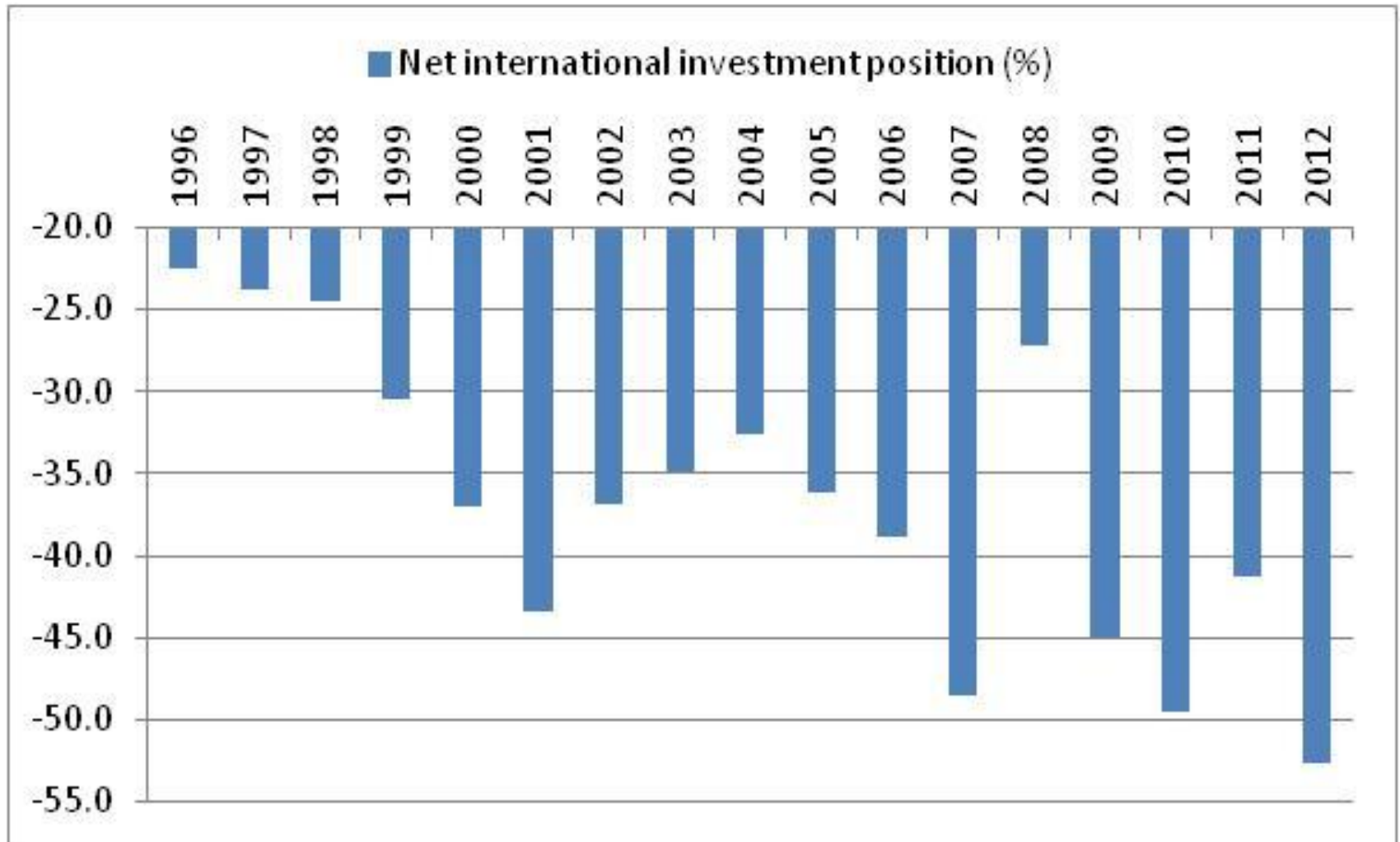
# Savings is important for macroeconomic stability, as well...

- Notwithstanding the positive radical change in macroeconomic policy environment in the aftermath of the 2001 crisis -regarding macroeconomic stability- still there are two important problems:
  - Savings rate is low and has been declining in the last couple of years.
  - There is still a high degree of liability dollarization.

# Savings and total investment (% of GDP)

	1980-89	1990-99	2000-09	2010-12
<b>Savings</b>				
Brazil	18.5	17.1	16.8	18.2
China	39.1	40.7	46.4	51.8
India	20.8	23.7	30.1	31.6
Russia		27.3	30.0	27.0
Turkey	21.5	21.6	15.8	13.5
Korea	31.7	35.9	31.8	31.7
<b>Investment</b>				
Brazil	18.9	18.0	17.5	20.4
China	39.9	39.1	41.3	48.4
India	22.6	24.9	30.6	34.9
Russia		26.8	20.8	21.9
Turkey	22.7	22.4	19.0	21.7
Korea	31.5	35.2	29.5	29.3

# High liability dollarization





## As a result...

- Turkey is vulnerable to both sudden stops and surge in capital flows.
- Sudden stops: Lowers growth and unemployment, increases inflation.
- A surge in capital flows: Appreciation pressure, rapid credit growth, financial stability problems.

# How?

- “Regardless of the nature of the binding constraint, raising growth in the future will necessitate a significant increase in domestic saving effort (Rodrik (2009, 20).”
- Rodrik (2009) points to a need for increasing structural surplus of the public sector.
- “Increasing public savings can increase domestic savings provided that measures taken rely on the formalization of the economy Loayza, Schmidt-Hebel, and Seven (2000) “.

# How?

- No doubt that formalization is not a growth panacea.
- But various estimates indicate that there can be considerable per capita GDP gains through a formalization reform.
- Firms in the informal sector are unproductive and create an obstacle for firms operating in the formal sector to grow and become more competitive in foreign markets.