

Development & Growth

Economic Impacts of Globalization

Global Studies Vol.3



Editors

Farhang Morady, Hakan Kapucu, Ömer Yalçinkaya

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Development & Growth: Economic Impact of Globalization
(Edited by: Farhang Morady, Hakan Kapucu, Ömer Yalçinkaya)

DEVELOPMENT & GROWTH

Economic Impacts of Globalization

Global Studies Vol.3

Edited By

Farhang Morady

Hakan Kapucu

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London, United Kingdom
3 Bassingbourn, House Sutton Dwellings
Upper Street, London N1 1UB

www.ijopec.co.uk

E-Mail: info@ijopoc.co.uk
Phone: (+44) 73 875 2361 (UK)
(+90) 488 217 4007 (Turkey)

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info@ijopec.co.uk

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List of Contributors

This is a list of those who contributed to *Development & Growth: Economic Impacts of Globalization*. The scientific and the legal responsibilities belong to the authors. The copyrights of the publications belong to the IJOPEC Publication. The authors are responsible for the content of the papers and for the accuracy of the references.

Editors

Farhang MORADY is Principal Lecturer in Globalisation and Development in the Department of Politics and International Relations at the University of Westminster, London. He researches in the fields of international political economy, the US/Iranian conflict, and state and development in post-revolutionary Iran. With a PhD from the University of Leeds, he has taught at the University of Westminster since 1994. F.Morady@Westminster.ac.uk

Hakan KAPUCU is an Associate Professor at Kocaeli University. He is one of the co-editor of *International Journal of Politics & Economics (IJOPEC)* Publication and the organizing co-chair of the annual *International Conference of Political Economy Series*. He received his doctorate degree in finance at Marmara University in 2003. In addition to teaching at Kocaeli University, he researches in the field of Impacts of Globalization, on Finance, Portfolio Modelling, VAR Analysis. kapucu@kocaeli.edu.tr

Dr. Ömer YALÇINKAYA is an Assistant Professor Ph.D. at Economics Department Faculty of Economics and Administrative Sciences at the Ağrı İbrahim Çeçen University in Turkey since 2015. He earned his master's degree and doctorate in economics the University of Atatürk in Turkey. His teaching and researches are in the area of macroeconomic, money politics and theory, Turkish economy and theories of economic growth. He has also worked extensively on the determinants of economic growth and explaining differences the economic growth/income levels among countries. oykaya@agri.edu.tr

List of Contributor

Authors

Dr. Halil İbrahim AYDIN is an Assistant Prof. Ph.D. at the Department of Economics, Faculty of Economics and Administrative Sciences at Batman University, Batman, Turkey. His teaching and research fields are international and development economics. His research interests include, Economic Development, Regional Development, Regional Development Agency, Social Capital, Poverty, Economic Growth, Economic Crises. There are many books that he edited; “The Economic Crisis and Turkey’s Economy”, “Articles on Regional development”, “Economics and Politics Articles on Development”, “Monetary-Banking and Finance”. Besides, he has also written books on “Social Capital and Development”. hiaydin12@gmail.com

Giorgi BENASHVILI, International Relations Coordinator of Fabrication Laboratory at Tbilisi State University, MA researcher in International Economics, Faculty of Economics and Business at Tbilisi State University. B.A (Department of Political Sciences, Faculty of Social and Political Sciences, Tbilisi State University) He is authors of few Publications on Economics, Regional Development and Political Transitions. His research interests are: International Trade Agreements, Regional Economic Development, State Security and Political Systems. Contact: Tbilisi State University, giorgi.benashvili@tsu.ge.

Dr. Dilek ŞAHİN is an Assistant Prof. Ph.D. at the Department of Hospitality Management Department, Tourism and Hotel Management at Cumhuriyet University, Sivas, Turkey. Her teaching and research fields are international economics. Her research interests include, Economic Development, Regional Development, Economic Growth, Foreign Trade, Intra-Industry Trade and Competition. She has many articles and books about the field of interest.

Dr. Ayşe ERGİN is an Assistant Professor Ph.D at the Department of Banking and Finance, Faculty of Economics and Administrative Sciences at Ömer Halisdemir University, Niğde, Turkey. Macroeconomics, Monetary Economics, and International Economics are within the scope of her teaching and research fields. Her main areas of interest are Foreign Exchange Rates, Financial Systems, and International Trade on which she published several articles.

Dr. Ayberk Nuri BERKMAN is a full-time Assistant Professor at the Department of Banking and Finance, Faculty of Economics and Administrative Sciences at Ömer

Halisdemir University, Niğde, Turkey. Applied Macroeconomics & Microeconomics, International Finance, and Political Economics are within the scope of his teaching and research fields. His main areas of interest include Monetary and Fiscal Policies, Financial Liberalization, Term Structure of Interest, Corporate Governance, Agricultural Production, Current Account Deficits, and Energy Policies on which he published several articles.

Fulya KÖKSOY is a research assistant in the department of International Relations at the Faculty of Economics and Administrative Sciences in Batman University, Batman, Turkey. She received the bachelor's degree in the department of international relations from Atılım University in 2010. Köksoy who had a merit-based scholarship graduated ranking first in Atılım University. She received the dual master's degree in the department of international security from Police Academy and international relations from Ankara University. She has gone on the dual doctorate in the department of international security and international relations. Her interest areas are China foreign policy, the foreign policy of USA, USA-China relations, European Union, EU-China relations, and International Security and theories of international security. Fulya KÖKSOY who is born in Ankara and who likes to do interdisciplinary studies related to her interest areas and knows English very well and French at middle level.

Dr. Halim TATLI is still working as an Asst. Prof. Ph.D at the University of Bingol in faculty of Economics and Administrative Sciences in department of Economics. He gave lectures are as follows: microeconomics, economic growth, economic development, econometrics. His work areas of human development, poverty, household behavior and family economics labor market, economic growth, energy economics. He worked as an expert in the Agriculture and Rural Development Support Institution during 10 years. E-mail: htatli@bingol.edu.tr

Mahmut ERDEM graduated from Istanbul University, Department of Economics and currently holds a master's degree in Islamic Economics and Law from Bingöl University, Bingol, Turkey. His interests and fields of study include Development, Global Economy and Islamic Finance, and there are some researches and studies his has done on this field. E-mail: mahmuterdem12@gmail.com

Dr. Filiz YETİZ is an Assistant Professor Ph.D at the Department of Banking and Finance, Faculty of Economics and Administrative Sciences at Ömer Halisdemir

List of Contributor

University, Niğde, Turkey. Macroeconomics, Monetary Economics, and International Economics are within the scope of her teaching and research fields. Her main areas of interest are Foreign Exchange Rates, Financial Systems, and Banking Sector on which she published several articles.

Dr. Haktan SEVİNÇ is an Assistant Prof. Ph.D. at the Department of Economics, Faculty of Economics and Administrative Sciences at Iğdır University, Iğdır, Turkey. His teaching and research fields are international economics and development economics. His research interests include regional and rural development, sustainable development, foreign investment and investment incentives.

Dr. Merter AKINCI is an Assistant Prof. Ph.D. at the Department of Economics, Ünye Faculty of Economics and Administrative Sciences at Ordu University, Ünye-Ordu, Turkey. His teaching and research fields are international economics and economic growth. His research interests include economic growth and development, regional development, international trade, financial economics, poverty and income inequality, economics of happiness and economics of identity. There are some books that he wrote such as “Economic Growth and Its Macroeconomic Determinants”, “The Relationship between Economic Freedom and Economic Growth” and “Basic Mathematical Processors, Matrices and Determinants” which is a chapter in an edited book named as “Econometrics”.

Dr. Murat SİLİNİR is an Asst. Prof. in the Department of International Relations at the Faculty of Economics and Administrative Sciences in Batman University, Batman, Turkey. His main research areas are international Politics, International Security, Political Economy, American Foreign Policy, and Middle East Politics. He is author of two books “Amerikan Gücünün Geleceği”(The Future of American Power) and “ABD’nin İslam Algısı”(The Islamic Perception of USA). Dr. SİLİNİR is also head of department of International Relations. In the faculty, he teaches International Relations, International Politics, International Relations Theories.

Dr. Merve TUNCAY is an assistant professor doctor at the Department of Banking and Finance in the Faculty of Economics and Administrative Sciences in Cumhuriyet University, in Sivas/Turkey. She is the author/coauthor of a bunch of studies and presented papers both abroad and homeland regarding areas basically asset valuation, financial markets, international finance, financial econometrics and spatial

econometrics. Her research and teaching fields comprise financial management, financial statement analysis, and financial markets.

Dr. İbrahim ÇÜTCÜ is an Assistant Prof. Ph.D. at the Department of Economics, Faculty of Economics, Administrative & Social Sciences at Hasan Kalyoncu University, Gaziantep, Turkey. His teaching and research fields are International Economics. His research interests include, Foreign Trade, Innovation Economics, Education Economics and European Union. He has also managed some projects about export and innovation area. He is now deputy of dean at Faculty of Economics, Administrative & Social Sciences.

Fatma Betül URHAN is a research assistant and Ph.D student at the Department of Geography at Kahramanmaraş Sutcu Imam University. She earned her bachelor degree in the Department of Geography at Ankara University and master's degree at Kahramanmaraş Sutcu Imam University. The topic of her master thesis and publications are about regional development and development agencies. Her other research interests include Economic Geography, Urban Geography, Spatial Analysis, Social Capital and Gender.

Dr. Ersin Kaya SANDAL is an Assoc. Prof. Ph.D. at the Department of Geography, Faculty of Science and Letters at Kahramanmaraş Sütçü İmam University, Kahramanmaraş, Turkey. His teaching and research fields are about Human Geography. His research interests include Economic Geography, Urban Geography, Cultural studies, and statistical techniques. He has many books or book sections, and articles.

Dr. Hamza ŞİMŞEK is an Assistant Professor Ph.D at the Department of Economics in Batman University. He received his M.S and Ph.D. degrees in economics from Muğla University. His research activities are focused on macroeconomics, microeconomics, poverty, game theory. He teaches microeconomics, macroeconomics, and monetary policies. He has recently published papers and books on poverty in Batman, money supply theories and game theory. hamza.simsek@batman.edu.tr

Dr. Canan SANCAR is an Assistant Prof. Ph.D at Gumushane University, Turkey. Her teaching and research fields are Monetary Policy and Financial Markets. Among her research interests are Economic Growth and Development, Regional Development,

List of Contributor

Energy Economy, Economic Crises and Monetary Policy. She wrote many academic articles, books, and projects.

Introduction

Development & Growth: Economic Impacts of Globalization

Farhang MORADY

Hakan KAPUCU

Ömer YALÇINKAYA

The growth paradigm or the economic growth generally been presented as a positive, limitless and good for social problems. The term was hardly touched in pre-capitalism by any academic research. With the rise of capitalism and industrial revolution it became an important tool to measure production quantitatively and qualitatively.

Industrialisation also encouraged the expansion of trade and gradual breakdown of the pre-capitalist order in 18th century in Britain. The spread of market had facilitated the specialisation, encouraging division of labour. Whilst for The Classical Political Economists; Adam Smith, David Ricardo and Thomas Malthus; economic growth is self-reinforcing. Marx pointed out importance of forces and relations of production and significance of social classes within it (Marx, 1863).

Smith, Ricardo and Malthus were writing at a time when capitalist development was expanding fast and growth was a central in the process. The gradual impact of the West on the rest of world became part of a wider process of change in the World Economy. European capital increased its domination of the world trade through expansionist commercial policies (Wallerstein, 1979). The economic growth encouraged commerce. The necessity to export, and other technological changes formed part of the reason for the decline of feudalism. This transition from feudalism to capitalism began in the West and soon made an impact on the rest of the World.

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In 1932 Simon Kuznets, the US economist identified Gross Domestic Product (GDP) to measure the national output of a country within a period. It has continued to be an important indicator to measure economic growth, but it has also been under considerable criticisms. For example; GDP treats resources as income without excluding depletion or depression of the resources. Moreover, GDP has been criticised for disregarding income distribution. Despite all the criticism, GDP has been the most significant indicator of growth and development.

With the Post War-II reconstruction of devastated countries and in order to kick-start the World Economy, the state in both developed and developing countries became the important agency to facilitate economic growth. The establishment of the Bretton Woods institutions, the Keynesian model of government intervention and the US implementation of “New Deal” facilitated growth. This was deliberate strategy to reconstruct and create networks of international cooperation. This was pointed out by President Truman in 1949:

A program of development based on the concepts of democratic fair-dealing. All countries, including our own, will greatly benefit from a constructive program for the better use of the World's human and natural resources (Truman, 1949).

This meant the reinforcement and need to distribute the 'Benefits' of capitalist form of development, more widely, against the planned economy sustained by the Soviet Union.

The economist such as Joseph Schumpeter pointed to the possibility that capitalist growth, if it is sustained, could abolish poverty (Schumpeter, 1954, pp66-68).

Whilst development meant rapid industrialisation, GDP became a key policy objective for the policy makers and governments around the world, not just in the Soviet Union but the Western Capitalist World, to set targets for their Growth Rate.

The end of the Cold War in the 1980s, for some, meant triumph of Neoliberal Capitalism. The others talked of trade liberalization; free movement of capital and the development of information technology, facilitating the relocation of businesses across the world. (Ohmae, 1995). Friedman suggested that globalization is the Inevitable;

Integration of markets, nation-states and technologies ... enabling individuals, corporations and nation-states, to reach around the world farther, faster, deeper and cheaper than ever before (Friedman, 1999).

Francis Fukuyama (1992) suggested the new era as ‘The End of History’ through which the ‘Liberal Idea’ triumphed, leading to a new global hegemony. For Fukuyama the only route to modernity, growth and development is the Neo-liberal Democratic path under Global Capitalism.

This optimism was not shared by all academics, as Globalization produced poor growth and polarization of wealth: what Collier terms the ‘Bottom one Billion’ (2008). As a result, there has been major criticism of the World Bank and the International Monetary Funds in the second half of the 1990s, especially with the Asian financial and economic crises. The response from these institutions has been vigorous. They continued to believe that liberalization, deregulation, and privatization represent the best way forward for growth and development.

With 2008 world recession the World Economy has faced a new challenge. The emergence of powerful economies such as; China, India and Brazil; helped the world economy to grow, at least for now. However, the unevenness of the world economy continues to cause difficulties especially the US as they feeling the threat of their competitors such as China, Germany and even India.

The victory of Donald Trump as the S President has represented an ideological shift from free trade advocator of global capitalism to a mixture of right-wing populism. Before and after the presidential election, he called for the revival of the American economy, which has been under considerable pressure since 2008 World Recession. In order to prove growth rate Trump has a huge challenge ahead, not least to deal with the competition from South East Asian economies, especially China. It remains to be seen whether the new US administration will continue with their populist rhetoric

In this book, “Economic Impacts of Globalization: Growth & Development”, several academicians provide different analysis of economic growth and economic development. The scientific ethics and responsibility of the works in the book belong to the authors / writers.

The book comprises of 15 chapters focusing on economic growth and economic development in the era of globalisation. By taking different angles, they demonstrate different problems and solutions.

In the first chapter entitled “The Effects of The Global Scale Economic and Political Uncertainty on Economic Growth: The Example of Selected Emerging Market Economies (1992-2015)”. Ömer YALÇINKAYA and Halil İbrahim AYDIN analyze

the effects of the global scale economic uncertainties based upon the developments in USA on the economic growth performances of the rapidly developing emerging market economies such as; Brazil, China, India, Indonesia, Mexico, Russia, South Africa and Turkey (EME-8); within the scope of the new generation panel data analysis methodology econometrically for the period 1992-2015. From this aspect, it is purposed in this study to empirically examine that whether global scale economic and political uncertainties have an effect as predicted in the theoretical framework on the economic growth performances of the emerging market economies in the group of EME-8. Determined at the end of the study that all the effects of the economic and political uncertainties based upon the developments in the USA are avoidant (negative) and statistically meaningful on throughout of EME-8 group panel and all cross section units that generate this panel.

The Second Chapter Farhang Morady will analyzes the implementations of neoliberalism and its implications in post-revolutionary Iran. It will argue that neoliberalism is not a 'one size fits all' doctrine, especially in relation to oil producing countries, notably the case of Iran. This is because of the abundant energy resources held by Iran, which has cemented its geopolitical position within the region. Iran has gone through different phases of neoliberalism but this has not diminished the role of the state within Iran. Despite privatization, including significant deregulation, an end to subsidies for specific industries and commodities, the Iranian state continues to be instrument in the political economy.

The "The Impact of Regional Economic Cooperation: Case of South Caucasus" was prepared by Giorgi BENASHVILI. The article considered and discusses about the possibilities of economic cooperation in the South Caucasus, within the framework of the economic partnership between Azerbaijan, Georgian, Armenia and Turkey, in particular of transportation, energy routes and regional trade. The South Caucasus region is a geopolitically important region at the crossroads of Europe and Asia, with strategic energy and transport routes. This geopolitical location increase opportunities to extend economical activities. Twenty years after break-up of the Soviet Union, three states of the South Caucasus Armenia, Azerbaijan and Georgia are facing considerable challenges in creating sustainable and inclusive economic growth. The transformation to democratic systems and market economies was very durable process and requires further reforms. From the 1990s period, all those states trying to introduce new foreign markets for goods and services. Economic factors, historical links, cultural ties and social factors are stimulating and necessitating economic cooperation between the

countries in the South Caucasus. The motivation to study economic development and cooperation in the South Caucasus is the step to introduce more possibilities, partnerships and developing of this significant region.

The “The Relationship between Economic Globalization and Financial Freedoms in Eastern European Countries: A Panel Data Analysis” was prepared by Dilek ŞAHİN. The objective of this study is to look through the relationship between economic globalization and financial freedoms in Eastern European countries. Within the context of this objective, the relationship is analysed by panel data analysis using annual data between 1998 and 2013. The results of the analysis indicate that there is a relationship of both co-integration and causality between economic globalization and financial freedoms. Moreover, there is a positive relationship between economic globalization and financial freedoms. In other words, the level of economic globalizations understood to accelerate the level of financial freedoms.

The “The Effects of Globalization on Financial (Money and Capital) Markets” was prepared by Ayşe ERGİN. The boundless development of transportation and communication technologies has led to a different dimension for commercial relations among countries. This new world order, characterized as globalization in economic terms, has three different field effects in a broader perspective. These are international trade, international production and finally the liberalization of international financial flows. At this point, perhaps the most influential field of globalization is likely to be the financial markets. This influence, assessed as financial globalization, is the result of “the breakdown of the boundaries among national financial markets, the maintenance of international competition by eliminating various controls and limitations on the financial markets, the convertibility of markets, the fluctuation of exchange rates, the rise in international capital flows and, the prominence of new institutional investments such as mutual funds and investment trusts in financial markets”.

The “Monetary Policies and Economic Growth/Development Relationships within the Context of Globalization” was prepared by Ayberk Nuri BERKMAN. This study aims to make a statement on the relationship between monetary policies and economic growth/development within the scope of the concept called globalization by formulating several definitions for the globalization process. It is believed that globalization, perceived as the free movement of capital, on the world scale, without the restriction of national boundaries, is favourable to all economies and will increase the prosperity and happiness of the wholesale world economy. However, the frequent

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recessions and the subsequent economic and financial crises imply that globalization must be managed. For this reason, it is currently waiting for an effective international structure for global economic system governance. This study first examines the effects of globalization on monetary policy after explaining definitions of globalization, then compares the growth of world economies. The conclusion introduces the proposal that the literature suggests at the point of eliminating the drawbacks of the global economy.

The “The Rising Eco-Power in Global World: An Analysis over The Economic Growth Model of PRC” was prepared by Fulya KÖKSOY. The rising of the People’s Republic of China (PRC) that is stated as a rising eco-power in global world emerges in the axis of its economic growth model that has been continued successfully for many years. PRC starts to prioritized economic growth with the period of Deng Xiaoping. In this frame, the economic profile of PRC rises on the axis of reform and the outward opening policy. In addition to the rising economic profile, the emergence of a growing PRC in the framework of proactive policies exhibited outside of Asia-Pacific geography has highlighted other important factors. In this context, the economic growth model of PRC plays an important role for the transformation of Chinese economy. With regard to this, the aim of this study is to analyze the economic growth model of PRC with its economy politics and to problematize the impact of the economic growth of PRC.

The “Economic Threat of Globalization: Crisis Generation Mechanism” was prepared by Halim TATLI and Mahmut ERDEM. The Great Depression and the economic and social destruction that followed the Second World War, showed how much the countries were affected by each other and how much they needed each other. In addition, the economies that have completed the industrialization process have sought to get every type of opportunities out of domestic markets for taking advantages. Thus, a new economic order that deals with the world as a whole is becoming a prevailing in the economic field as well as being a political area through international organizations. Today, some positive and negative effects of this order are evaluated in the context of the concept of globalization. This study examines the risks that globalization has for countries in the sense of the economic crisis, a process in which new relations are developed on the earth. Analysing 1997 East Asian Crisis, the link between economic globalization and financial liberalization will be explained according to economic indicators.

The “The Impacts of Banking Sector on Economic Growth within the Context of Globalization” was prepared Filiz YETİZ. In parallel with the growth of commercial

life in the world, banks have played the most active roles in financial markets in finding funds efficiently and uninterruptedly. Along with the globalization, there have been significant changes and developments in the financial sector, especially in the banking sector. This process has led to the creation of new products in the banking sector and the expansion of banking activities. In the globalization process, bank mergers and acquisitions have become widespread. The banking sector has been opened to international competition, and the entry of foreign capital banks into the market has become easier within the sector. The strength of the banking system would ensure the strength of the country's economy. Along with the growth and development of banking, the growth and development of the country's economy will increase in proportion to the same direction. For this reason, banks have a very important place in the finance sector. This study aims to reveal the developments experienced in the banking sector within the globalization process and their reflections on economic growth from a theoretical point of view.

The "Get Up, Stand Up and Do Not Give up the Fight: Making a Terrorist Homo Socio-Economics" was prepared by Haktan SEVİNÇ and Merter AKINCI. Fighting against the global terrorism has become one of the most important objectives in the world's agenda since 9/11. On the one hand, the dominant strategy to make war on terrorism is shaped by the endeavours to eradicate terrorist activities. On the other hand, the main question of whether socio-economic tools can be used to fight against terrorism has still been debated. In order to answer the question, this paper investigates the socio-economic roots of terrorism in MENAP countries. Following the traditional regression estimation methods, the spatial disparities in the linkages are investigated using Geographically Weighted Regression analysis. The results of the analysis show that the wider the socio-economic benefits are, the lower the possibility to involve in a terrorist activity is. In other words, the empirical findings indicate that an increase in the level of income, investments, consumption, openness, institutions, education, freedom, happiness, and democracy decreases the average terrorist activities, while a rise in the level of unemployment, poverty, inequality, resident instability, and ethnic and religious heterogeneity widens it.

The "The Rise of Theo-Politics in the Context of Globalization: Impacts on Global Political Economy" was prepared by Murat SİLİNİR. In the pre-modern period, the position of religion was pivotal, in the economic and political system. In this system, the church was a crucial political and economic actor. With the appearance of "Modern World", that historical background reaching the 15.Century, religion has almost been

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pushed out of economic-political sphere. Domination of Nation-State understanding on the global system has progressed parallel to this process. Towards the end of the twentieth century, impact of globalization increased and religiosity has returned to political and economic realm. In this process, rapid technological transformations play an important role. The main purpose of this study is to analyse rise of Theo-Politics in the context of globalization and its impacts on the global political economy. In this general context, firstly, the rise of Theo-politics will be examined in the context of modernity and globalization.

The “Interaction between Domestic/Foreign Savings and Investments in The Context of Globalization” was prepared by Merve TUNCAY. Financial liberalization is expected to contribute to the economic welfare of nations by directing savings into productive investments as also supported by the separate studies of Shaw (1973) and McKinnon (1973). On the other hand, different cases that have been experienced by the countries since the 1980s caused this process to be questioned by both the academic literature and the market participants. This study examines the financial liberalization process in the context of savings and investments from a theoretical perspective and the experiences of Turkey in liberalization process.

”The Relation of Foreign Trade and Globalization: A Practice in Turkey” was prepared by İbrahim ÇÜTCÜ. The foreign trade potential of a country is known as an important element of global competition for development and growth in international economy. In the study, it is planned to analyse the relationship between globalization and foreign trade for the years 1970-2016 depending on the availability of data for Turkey. While the globalization index variable planned to be used as an independent variable in the analysis is addressed in three dimensions; economic, social and political, the foreign trade variable to be used as a dependent variable consists of import and export data. In the study in which the co-integration analysis and the causality test will be implemented with the data obtained from the Swiss Economic Research Institute and Turkish Statistical Institute. A time series analysis will be conducted as a method and it is aimed to reveal the results of the relationship between globalization and foreign trade.

”Geographical Location Analysis of Sectoral Concentration in The TR63 Region” was prepared by Fatma Betül URHAN and Ersin Kaya SANDAL. This study analyzed the sectors becoming prominent in the manufacturing and service sectors in the provinces of Hatay, Kahramanmaraş, Osmaniye and the İBBS Level 2 TR63 region constituted by these provinces, using the method of Location Quotient (LQ). TÜİK 2002 General

Industry and Workplace Census data were utilized in calculating location quotients by provinces, while 2009-2013 TÜİK Annual Manufacturing Industry statistics were used to calculate location quotients by regions. Sectoral location quotients were analyzed and the sectors that are becoming prominent in the location dynamics in the region were presented. The sectoral concentration on the level of provinces and regions was analyzed in the context of economic geography.

The “Defense Expenditures and Turkey” was prepared by Hamza ŞİMŞEK. Turkey is obliged to preserve its defence power due to its geographical position. Many countries around the world want to increase their defences for this purpose. The world defence costs constitute 2.6% of the Gross National Product of the world. The USA is the spearheading of this trend by its enormous expensing budget. Countries need to increase their national income in order to compensate their defence spending. Turkey takes the 17th place by 15.2 billion dollars of military expenditure and 18th in the world in national income. In respect to this, the subject needs to be discussed must be the addressing level of the needs of defence from the domestic resources rather than the size of defence expenditures. It is seen that the countries which have a voice in today's global diplomacy and powerful armed forces meet their military requirements from the domestic resources.

The “Inflation, Interest Rates, and Output Level in Terms of Globalising Monetary Policies” was prepared by Canan SANCAR. Globalisation affected the capability of monetary policy makers in providing prices and output stability through expectations and through the effects of globalisation on the monetary policy transfer mechanisms. According to a recent opinion put forward by the academic and political community, globalisation has become a central driving force in determining the domestic tendencies of inflation and starting from mid 1990s, they have moved together with inflation levels at international level. Globalisation led to high-level convergence and the synchronisation of interest rates (both in the short and long term). Thanks to globalisation, interest rates were started to be determined by fixed-rated regions rather than individual countries and the operations of the monetary policy efficiency of any country got weaker. Developments in the global market, rather than the domestic factors, play an important role in the fact that long term interest rates show an equal level to each other in the 2000s. Therefore, long term interest rates are more affected by the international conditions than the decision of the monetary authority. The increasing economic and financial market integration among countries increased the homogeneity in the monetary policies of countries' central banks. As a result of the

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developments that emerge with globalisation, the bound among domestic inflation and domestic source use as well as consumption got loose.

We hope different research provided in this book would help the reader with analysis of both the risks and opportunities brought by the globalization process. In addition to this, we believe that the detailed contents will contribute to the body of knowledge, in the area of economic growth and development literature. Finally, we would like to thank all the authors whose paper published on this book whose ideas may inspire academicians and students around the world.

Farhang Morady,
Hakan Kapucu,
Ömer Yalçınkaya

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