Book of Abstracts of SSEM EuroConference 2019: Emerging Market Economies, June 27-29, 2019
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Editors:
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PREFACE

**SSEM EuroConference 2019: Emerging Market Economies
is jointly organized by The Society for the Study of Emerging Markets (SSEM) and
University of Milano Bicocca (UNIMIB) and will be held at UNIMIB
from June 27 to June 29, 2019.**

The Society for the Study of Emerging Markets was founded to promote research and publication about emerging market economies and to provide a way for academics, policy makers, and members of the business community to exchange views and share information and research about emerging markets. The Society sponsors the journal Emerging Markets Finance and Trade (EMFT), which is recognized worldwide for the quality and timeliness of the research on emerging markets that it publishes. The Society also cooperates with its regional affiliates and allied organizations in other countries to promote its objectives, and holds international meetings and conferences that are devoted to issues relevant to emerging markets, many organized in cooperation with leading universities and research institutions as well as with regional partners.

The SSEM EuroConference 2019 provides the opportunity to bring together researchers from all over the world to present and discuss some of the most recent advances and results in economics of emerging markets

This book contains 46 abstracts, all carefully selected by the Scientific and Local committee. We are very indebted to all of them.

We are also very pleased to benefit from the participation of our guest speakers Prof. Arkhan Ahmed-Zaki (University of International Businees, Almaty, KZ) and Prof. Ali Kutan (University of Southern Illinois, USA) for their plenary lectures. We express our gratitude to these world renowned experts on emerging markets.

The International Scientific Committee has supported the Local Organizing Committee since an early stage in defining the science program and has provided timely comments on key questions on the organization. We are indebted to all members who accepted to support us.

The opening of the conference will be done by UNIMIB Pro- Rector Prof. Paolo Cherubini and the former Ambassador of Italy in Kazakhstan, Amb. Stefano Ravagnan. Many thanks for their friendship and support.

Finally, as editors of the Book of Abstracts, we acknowledge the excellent support, patience and cooperative spirit of all the Local Organizing Committee: Enrico Moretto, Gleda Kutrolli, Shakhizada Suleimenova.

 We are very pleased to welcome all the participants of SSEM EuroConference 2019 in Milano and look forward for another excellent SSEM EuroConference 2020!

Milan, 2019

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PLENARY SESSION 1

Kenzhegali Sagadiyev
GLOBAL CENTERS OF INFLUENCE AND INDEPENDENCY OF NATIONAL GOVERNMENTS
Kenzhegali Sagadiyev:University of International Business,
Almaty, Kazakhstan Global Centers of Influence and Independency of National Governments

Overview:
Presentation will highlight Kazakhstan experience of transformation from centralized to market economy, tackling challenges of global economy and overcoming global financial crisis. Particular attention is paid to early ages of transition period, when so called "shock therapy" in accordance with recommendations of "Washington Consensus" was applied in Kazakhstan, and consequences of these policy measures to dynamics and trajectory of modern economic development of the country.

**Darkhan Akhmed-Zaki, Aneliya Mukhamedkarimova, Mira Maulsharif, Zhanerke Aidosova
and Bauyrzhan Zhakipov**
*EDUCATION TO EMPLOYABILITY: DATA-DRIVEN PERFORMANCE IN THE KAZAKHSTAN
UNIVERSITY.*

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Overview

HEI in the emerging markets experience two types of challenges:

- quality of education and
- sustainable growth and financial stability

HEIs can utilize business intelligence (BI) to overcome mentioned challenges and to enhance their efforts both in attracting freshmen and increasing the students' performance. Data-driven decision-making can strengthen all key activities including:

- Customer attraction – defining the different groups of enrollees and offering them the appropriate programs.
- Product development – a curricula properly focused on each target group of students in strong connections with the employers' skillset request.

Method

A case study of the University of International Business based on analyzing a set of available students' data. There were two phases. Phase one used psychological patterns analysis founded on choosing colors. The enrollees where asked to choose a favorite color from five, which defined closely his or her psycho. According to it a sales representative made an offering by phrases and words that matched to the psycho. Phase two was executed after the first semester completion when the students' performance where analyzed in terms of their psycho and other initial parameters like gender, faculty, etc. Main method of study was an Explorative Data Analysis based on the Statistical Methods.

Results

The intake increased by 30 % because of Phase one. Phase two let the tremendous insights about students' behavior. For instance, the green type students are the major in UIB; Economy, Law, Journalism and Finance perform better than other fields; Business administrations, Information Systems and Marketing show the worst achievements; female perform better than mail in general, etc.

Conclusion

HEIs can use big data analysis tools to graduate the professionals linked with the market demand, considering individual abilities and interests in study. Each institution can create a unique strategy of data-driven education for their students' future employability.

ECONOMIC DEVELOPMENT AND GROWTH 1

Evzen Kocenda and Karen Poghosyan
NOWCASTING REAL GDP GROWTH WITH BUSINESS TENDENCY SURVEYS DATA: A CROSS COUNTRY ANALYSIS

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Overview
We use nowcasting methodology to forecast the dynamics of the real GDP growth in real time based on the business tendency surveys data. Nowcasting is important because key macroeconomic variables are available only with a certain lag, especially when collected on quarterly basis. We employ less explored data on business tendency surveys and compare the forecast accuracy of nowcasting and short-term forecasting algorithms. We use real-time data from 22 European countries: both emerging markets and developed economies. Our goal is to show which algorithm delivers the most accurate short-term forecasts, when the volatility of the real GDP growth changes.

Method
We use a dynamic factor model for nowcasting and a number of alternative short-term forecasting models both with and without factors. For models with additional factors, we use static and dynamic approaches to extract factors. For all countries we use the same unified data set: 25 variables on business tendency surveys data. We design and conduct an out-of-sample recursive forecast evaluation under different volatility regimes. Analysis is performed for emerging markets and developed economies, for different lags length and various combinations of factors.

Results
Based on the ex-post out-of-sample evaluation experiments we observe that nowcasting algorithm outperforms all competing short-term forecasting algorithms. Further, nowcasting algorithm outperforms alternative short-term forecasting models even when the volatility of real GDP growth is increasing both in time and across of countries.

Conclusions
Results indicate that nowcasting based on the dynamic factor model works quite well for the most part of countries included in our analysis, and can be easily extended to other countries or adapted to another dataset. Traditional short-term forecasting models do not take into account monthly information that is available in real time. Early available information is able to substantially improve the forecast accuracy even when uncertainty becomes relatively large.

İlkay Şendeniz-Yüncü
FINANCIAL STRUCTURE AND ECONOMIC GROWTH: EVIDENCE FROM EMERGING MARKETS

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Overview

Financial structure is defined as the mixture of financial institutions and markets functioning in an economy and their relative importance for that economy. This study examines the financial structure and economic growth relationship in emerging economies. Following the theoretical view that optimal financial structures differ according to different levels of economic development, this study also tries to determine the optimal financial structure and its effect on economic activity in emerging markets. Results of the study come from both panel least squares and dynamic panel GMM estimators. Findings of the study give evidence for the view that as economies grow, financial system becomes more market based. This study also documents that a deviation of a country's actual financial structure from the predicted optimal financial structure causes a decline in the level of economic activity.

Kamshat Mussina
TRANSITIONING TO EMERGING MARKET: CASE OF KAZAKHSTAN

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Overview
The processes occurring in any economic system are determined by the peculiarities of structural links between the elements and the environment in which the system is functioning. In economic literature, such factors that determine functioning and development of economic systems are divided into three groups: natural-climatic, industrial-economic, and socio-cultural.
Kazakhstan has made a significant shift in its economic develpmment and fostering sustainable economic growth since gaining its independence after USSR collapse in 1991. Speaking about the main stages of economy development in Kazakhstan, first it is necessary to turn to the era of its transformation with a focus on a free market economic system.

Method
As the main research methods while investigating the topic such methods as: content analysis, statistical analysis of Kazakhstan's main macroeconomic indicators, as well as method of comparison were employed in order to portray the path that Kazakhstan has been through in its attempt of transitioning to emerging market.

Results
The historical evolution of Kazakhstan in terms of economical develpment, political efforts of government for nurturing country's economic stability and growth, description of Kazakhstani economic model and challenges that it faces are provided. Moreover, assessment of major stratigic programs aimed at encouraging the divesification of Kazakhstani economy is given.

Conclusions
The main challenge of sustainable economical development in Kazakhstan is its dependence on extracting industries. That is why the government should continue working on the processes for diversifying the economy, which will increase the level of resilience of the country to changing prices for mineral resources.

Kuo-chun YEH, Zhen-sheng TAO and Ya-chi LIN*
SYNCHRONIZATION OR ASYMMETRY OF PROVINCIAL GROWTH DYNAMICS IN CHINA

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Overview

The initiation of the "Open and Reform" economic policies in 1978, mailand China has shifted to a market-based economy and experienced rapid economic growth. The average GDP growth rate has amounted to nearly 10% per annum. With wide area and heterogeneous endowment, whether the regional economic development is synchronized receives much concern. Under the gradual 5 year national development plan, each province follow a common plan and formulate the provincial policy measures. Adopting the household registration system and the centralized provincial major appointment system, huge gaps in labour mobility and market segmentation might exist among provinces and areas. This might in turn increase interregional transaction costs and regional symmetry. The effect on provincial growth dynamics is not determined.

Method

Our study is to examine the current development and consequences of China's RMB area. The so-called sigma-convergence (or log t) test (Phillip and Sul 2007; Kong et al. 2019) is to verify whether the growth dynamics is synchronized among provinces.

Results

Since there is huge difference among provinces, it is expected that overall growth convergence in China is rejected. This implies that the local development is not synchronized for all provinces. According to Yang's perspective, the failure of growth synchronization could be attributed to the following reason: the household registration system restrict labor mobility among provinces; the centralized provincial major appointment system segments the provincial markets. Therefore the effect of single currency endogeneity might be limited. By applying the clustering algorithm of Phillip and Sul (2007), we also find out club convergence of growth.

Conclusions

The new method, sigma-convergence (or log t) test, shows a more precise indication for economic symmetry than the traditional unit root and co-integration approach, therefore more clear policy implications can be provided for China's regional development.

Sandra Ardila and Jose L. Ruiz
FINANCE, POLITICAL RISK AND ECONOMIC GROWTH: A SYSTEM-GMM APPLICATION WITH FACTOR ANALYSIS

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Overview

This study analyze the impact of the political risk on the economic growth. We create a political risk index using a factor analysis in order to take better into account the impact of the different sources of instability. The analysis considers data from the World Bank, the Penn World Table Mark and the PRS Group Inc. for 132 countries from 1984 to 2016. We examine both industrialized and developing economies using a system-GMM methodology. For robustness analysis we control for institutional investors, and women in the parliament as a measure for political risk. The results reveal that political instability negatively affects economic growth, and the impact is greater and significant for industrialized countries. Insurance companies affects positively the economics growth. In turn, pension funds have a positive relationship with growth only for industrialized countries.

STOCK MARKET 1

İhsan Erdem Kayral, Hilal Merve Alagöz and Nisa Şansel Tandoğan
ASYMMETRY EFFECT AND VOLATILITY PERSISTENCE IN STOCK MARKET RETURNS DURING THE PRE-CRISIS, CRISIS AND POST-CRISIS PERIOD OF 2008: EVIDENCE FROM BRAZIL, CHINA, MEXICO AND TURKEY

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Overview
Stock indices, one of the most important indicators for capital markets, have followed a fluctuating course in the crisis period. From this aspect, trends in the stock exchange have been the subject of many researches. In the studies related to the stock market volatilities, stock exchange returns are generally used.

Methods
The aim of this study is to compare volatility persistence with daily volatility and to analyze the asymmetry effect of volatilities in BVSP Index (Brazil), SSEC Index (China), IPC Index (India) and BIST100 (Turkey) Index from the stock markets of important emerging countries in the three sub-periods. In our study, we use the closing data of these indices. The persistence, half-life measure of volatility and daily volatility of the return series are obtained from the GARCH model by using variance equation coefficients. E-GARCH model is applied to determine asymmetry effect of stock market returns (leverage effect).

Results
According to the results of GARCH model, speed of mean reversion is found nearly 9 days for IPC Index which has the lowest volatility persistence in the 2002-2007 period. The lowest number of days to revert back to mean in the crisis period is found as 25 days in BIST100 Index. In the post-crisis period, BIST100 Index is also found the lowest half-life volatility with 16 days. In the pre-crisis and post-crisis period, the highest daily volatility is in BIST100 Index and SSEC Index respectively, and SSEC Index reach the highest level in the crisis period.

Conclusions
The leverage effect is found in all indices (except SSEC Index in post-crises period) in all periods. It is identified that the leverage effect is more in the crisis period of BVSP, SSEC and BIST100. In crisis period, the highest daily volatilities are also found in all stock markets.

Kang Baek
DO VERTICAL RELATIONS AMONG FINANCIAL COMPANUES MATTER TO MUTUAL FUND FEES?

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Overview
Although the issue of whether mutual fund distribution companies negatively affect fund performance by charging excessive fees has long been discussed, not enough research has been carried out that examines the characteristics of fund distribution companies and their oligopolistic structures, with regard to determinants of mutual fund distribution fees. Therefore, for the first time in the literature, this study analyzes the determinants of mutual fund fees of fund distributors with oligopolistic distribution channels. This study differs from previous research in that it applies distributor-level, not fund-level, analysis. In addition, by dividing mutual fund distribution companies into various categories, such as by financial business segment and by transactional concentration in affiliated asset management companies, this study provides empirical evidence that may be useful in investors' and policy makers' decision-making processes. In doing so, this study provides implications for investor protection. More specifically, the results of the analysis suggest that the determinants of mutual fund fees that cause investor losses should be restricted, and that factors that unnecessarily hinder the operations of distribution companies should be removed to promote the growth of the mutual fund industry.

Methods
First, this study analyzed changes in the fund distribution companies' transaction-specific variables as price competition in the market intensifies. We conducted a mean comparison before and after the enforcement of pro-competition policies, using the paired t-test (parametric) and the Wilcoxon signed-rank sum test (non-parametric), according to the results of the Kolmogorov-Smirnov (K-S) test. Subsequently, we conducted a difference analysis to compare the transactional characteristics of fund-distribution company groups by financial business segment and sales concentration in affiliated companies. This was done with the independent t-test (parametric) and the Mann-Whitney test (non-parametric), based on the results of the K-S test. Finally, we conducted a multivariate regression analysis to ascertain the determinants of mutual fund distribution fees. The independent variables were the characteristics and transactional features of fund distribution companies, as well as variables recommended by Luo (2002), Gil-Bazo and Martinez (2004), and Khorana et al. (2009).

Results
This study analyzes whether under oligopolistic distribution channels, mutual fund fees are primarily determined by a distribution company's transaction-specific variables. The results have implications for investor protection, in that they empirically demonstrate that the intensity of market competition influences determinants. Through analyses at the distributor level, this study demonstrates that the characteristics of an oligopolistic structure, and particularly the financial segments and scales of fund distributors, are important determinants of mutual fund fees. It finds that subsequent to the enforcement of pro-competition policies, fees become more sensitive to market discipline and distributors' transactional characteristics, and particularly to sales concentration.

Conclusions
The results of this study indicate that measures should be implemented to lower the entry barriers for small and independent fund management companies that have superior investment capabilities, by dispersing distribution companies' excessive sales concentrations. The results also indicate that it is necessary to enhance market discipline through pro-competition policies, a multidirectional surveillance system for financial institutions, and financial consumer education initiatives. Taking these steps would strengthen investor protection and promote the growth of the mutual fund industry in emerging markets.

Adam Marszk and Ewa Lechman
EXCHANGE-TRADED FUNDS IN EUROPEAN DEVELOPED AND EMERGING COUNTRIES: HAS CRITICAL MASS BEEN REACHED?

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Overview
Exchange-traded funds (ETFs) are one of the most rapidly expanding categories of financial products in Europe, as evidenced by their increasing assets. One of the key questions is whether European ETFs markets have reached the size ('critical mass') at which they could affect the other parts of the financial systems. In our study we examine 13 European countries during the period 2004-2017 in order to evaluate the diffusion trajectory of ETFs, with the special focus on the identification of the critical mass that makes possible their further growth and can be associated with the influence on the financial system.

Method
By applying the technology diffusion models we develop country-wise patterns and estimates that facilitate evaluation of the in-time dynamics of the process of ETFs diffusion. This picture is enriched by the novel methodological approach that identifies the 'critical mass' along diffusion trajectories – the threshold level of ETFs diffusion from which it proceeds exponentially.

Results
Our results show that in 10 countries share of ETFs in assets of investment funds increased – in case of Germany, Italy and the United Kingdom the growth was most significant. However, in most countries the share of ETFs did not exceed 1%. Estimates of the diffusion models indicate that the process of growing share of ETFs was most dynamic and relatively most stable in Switzerland and the United Kingdom. Results of the critical mass analysis imply that its achievement may be forecasted exclusively for these two countries – the process of diffusion of ETFs can be predicted to enter the phase of exponential growth.

Conclusions
Results of our study show that, despite the substantial growth of both assets of ETFs and their share in the aggregate market for the investment funds in most of the analyzed countries, their role in the financial systems remains immaterial.

Karim Mimouni,
WHAT DRIVES THE CROSS-SECTION OF STOCK RETURNS IN THE MENA REGION
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Overview
This study is the first comprehensive study of the cross-section of stock returns in Middle Eastern markets. We rely on new data to investigate whether these returns are driven by market risk (beta) and firm characteristics such as size, book-to-market ratio, and momentum. Similar to results obtained for the United States, we find that beta and firm size are not reliably priced across the MENA Region markets. However, the firm characteristics such as book-to-market ratio and momentum are priced for most of the countries and on average across all stocks.

Musaab Mousa, Sagi Judit and Zeman Zoltan
THE ROLE OF MARKETING ON STOCKS PERFORMANCE- EVIDENCE FROM ARABIC GULF LISTED COMPANIES ON EMERGING MARKET INDEXES.

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Overview
In order to contribute effectively to value creation, marketing activities should be directed to the investor as a key stakeholder The purpose of this research is investigating the relationship between marketing applications measured by marketing expenditure and brand equity on stocks performance measured by return, risk and liquidity in markets of Saudi Arabia, United Arab of Emirates and Qatar as the most active emerging financial markets in the region as well as determining the differences resulting from the country or sector in regard to the relationship between variables.

Method
The sample is composed of Arabic Gulf shares of companies listed on emerging market MSCI and FTSE indexes which have the measurement characteristics required to test hypotheses regarding data availability during the period 2012-2018, the final sample has been included 72 companies are distributed in sectors of real state, common services, banking, materials, utilities, and chemicals. The research depends on secondary data resources, respecting to marketing variables, brand equity has been calculated by perpetuity perspective, using quarter published financial statements that were the same resource of marketing costs data for a time series covers 28 quarters, while shares performance data were obtained from trading information in the three markets. The analysis information was represented by 2,016 company- performance observations. Furthermore, some controlling variables have been added to the model such as size, age and financial health of the company.

Results
The proposed model explains a significant regression between marketing application and share performance of the total portfolio during the period under study, which refers to the investor response to marketing efforts. Nonetheless, the results of the regression and the strength of the model varied according to sectors, which can be interpreted as a result of investor/consumer behavior as well as the absence of diversification effect in sub-portfolios of sectors.

Conclusion
Research results correspond to previous literature in the framework of the finance-marketing interface that can contribute to deepening knowledge about the impact of marketing phenomena and intangible assets in the capital market. Additionally, the research has been conducted for the first time in this part of emerging markets and involves many managerial implementations. Not to mention future studies can address other variables and other methodologies as well

MACROECONOMICS 1

Takashi Matsuki
DOES SECTORAL PRODUCTIVITY CONVERGENCE PROMOTE PER CAPITA OUTPUT CONVERGENCE IN THE COUNTRY LEVEL ACROSS EAST ASIAN COUNTRIES

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Overview
Per capita output convergence is confirmed across some Asian countries such as "Asian Tigers", i.e. Hong Kong, Korea, Singapore, and Taiwan (Matsuki, 2019). In addition, some other countries such as Thailand and Malaysia show a converging tendency toward long-run convergence in the sense of asymptotically relative convergence. This paper examines whether sectoral productivity convergence across these countries contributes to achieving per capita output convergence in the aggregate (whole country) level. We also discuss which industry's growth trend is more influential to the aggregate level convergence. Moreover, we try to identify possible growth determinants, such as international trade, macroeconomic stability, government expenditure, human capital accumulation, and ICT, promoting sectoral productivity convergence.

Methods
Based on Bernard and Durlauf's (1995) and Hobijin and Franses's (2000) convergence definition, this paper aims to detect a pairwise sectoral productivity convergence between countries. To identify possible growth determinants which help us to find the clues of the convergence trend, Hansen's (1995) covariate augmented Dickey–Fuller unit root test and its extension to deal with two endogenous structural breaks (Matsuki, 2019) are employed. Several unit root tests such as the DF-GLS test are also applied to confirm the existence of long-run convergence without considering any possible growth determinants.

Results
We obtained some evidence of the productivity convergence in manufacturing and finance industries. The developments of these industries are important for more Asian countries to achieve long-run convergence in the aggregate level. Some growth determinants such as trade/GDP ratio, Inflation rate and so on are significant.

Conclusions
The paper found that the main driver of sectoral growth in Asian countries is not inter-industry resource reallocation but intra-industry productivity growth. Moreover, the productivity growth in manufacturing and finance industries seems to contribute to achieving output convergence in the aggregate (whole country) level. Some growth determinants may help to narrow productivity difference, i.e. promote productivity convergence.

Gilles Dufrénot and Kimiko Sugimoto
DOES INTERNATIONAL FINANCIAL INTEGRATION INCREASE THE STANDARD OF LIVING IN AFRICA? A FRONTIER APPROACH

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Overview

We investigate whether a higher international financial integration can help the African emerging and developing countries reduce their production inefficiency and/or push up their efficient frontier of production. By using a Stochastic Frontier (SF) analysis and quantile regressions with a panel of 45 Sub-Saharan African countries over the period 1996-2014, we provide evidence of heterogeneous situations across countries and time. We show that one size does not fit all: international financial integration can increase or decrease African countries' standard of living.

Methods

We first explore which subsets of explanatory variables have significant effects on GDP per-capita by using a Bayesian Model Averaging (BMA) technique and Weighted Average Least Squares (WALS). Second, we use SF model proposed by Greene (2005, *J. of Econometrics*) to confirm whether the inefficiency term diminishes (or increases) when African countries become more financially integrated with the international markets. Third, we investigate the role of financial integration in moving the frontier by using the fixed-effects SF model by Belotti and Ilardi (2018, *J. of Econometrics*). Fourth, we allow parameter heterogeneity in the GDP per-capita equation under the Quantile regression to understand a complete characterization of the conditional distribution of the frontier because it is robust to outliers in a panel data context.

Results

First (BMA and WALS), GDP per-capita is significantly influenced by the sectoral composition of the GDP, demographic variables, policy variables and a few governance variables. Second (SF model), among the financial integration variables (FDI, portfolio equity/debt, foreign bank claims, ODA, disbursements and remittance), only FDI inflows contribute to reduce inefficiency in a majority of countries, but this positive effect is not shown in the poverty indicator. FDI may not improve labor-intensive activities that should lead to employment creation and eventually to poverty reduction. Third (SF model), portfolio equity/debt liabilities together with FDI liabilities drive the production frontiers upward. However, any change occurring is incremental within countries. Moreover, there is a high dispersion across countries. Thus, the link between financial integration and GDP per-capita turns out to be a function with the distribution of heterogeneous characteristics of the countries. Fourth (quantile regressions), many financial integration variables have negative effect on moving up the frontier to the most efficient countries, but this negative effect decreases as countries raise their GDP towards the efficient frontier.

Conclusions

The bulk of policy advices on financial integration are to open their capital account to foreign capital markets to boost their economic growth. However, we took an alternative view, by looking at the effect of financial integration on production efficiency at the aggregate level. Our findings confirm that the international financial integration can increase or decrease African countries' standard of living. These findings play against the dominant view that one size fits all. A salient feature of our result is that financial integration cannot be associated with any catch-up dynamics between the African countries. The policymakers might be more cautious in moving further to achieve regional financial integration within Africa.

Ji-Young Choi
LABOR DEMAND OF THE INTER-KOREAN ECONOMIC COOPERATION

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Overview
This study examines the effects of inter - Korean economic cooperation on labor demand in the South and North Korean economies. North Korea has the comparative advantages in low labor cost. Labor-intensive industry such as textiles and clothes was also dominant in the SEZ represented by Gaesung Industrial Complex. Therefore, it is necessary to estimate the labor demand of South Korea and North Korea in order to prepare for the resumption and expansion of inter-Korean economic cooperation in the future,

Methods
This study tries to construct the Multi Region Input-Output table including the North and the South economy. We use the South Korea IO table and employment table for the year of 2014 released by the bank of Korea. As for the North Korea economy, we estimated its IO table based on the Vietnam IO table and use the employment data included in the DPRK's socioeconomic population and health survey conducted in cooperation with the UN Population Fund. RESULTS The labor demand for the South and North Korea has been highly asymmetric. If inter-Korean economic cooperation resumes at an existing scale, it will cause about 12,000 jobs in South Korea, while 396,000 jobs in North Korea. Because the labor productivity of North Korea is about 40 times lower than that of South Korea, the inter-Korean economic cooperation project is composed of labor-intensive industryoriented people using North Korean workers. If the inter-Korean economic cooperation is expanded beyond the existing scale, the employment inducement effect of 25,000 people in South Korea and 830,000 people in North Korea. In particular, if the first stage of development plan of Gaesung Industrial Complex is completed, it is expected to increase the number of employees to 20,000 in South Korea and 140,000 in North Korea.

Conclusions
It is important to forecast the labor demand required in order to expand the inter-Korean Economic Cooperation. In particular, to develop the inter-Korean special economic zone, it is necessary to examine whether the labor supply conditions of the special regions meet the labor demand. This study proposes the framework to estimate the labor demand of inter-Korean Economic Cooperation considering the interdependence of the two Koreas industries and their labor productivities.

Martinson Ankrah Twumasi

DOES FIANACIAL LITERACY INEVITABLY LEAD TO SAVINGS MOBILIZATION IN GHANA?
EVIDENCE FROM SMALLHOLDER FARMERS IN GHANA

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Overview

In Ghana, most of the smallholder farmers live in the rural area, which is expected to be populated by farmers with low level of financial knowledge due to the low level of education and therefore, easily to face financial decision problems which may affect saving mobilization. Financial literacy is expected to enhance savings but in developing countries like Ghana, it may not always be true due to some uncontrollable expenses and low level of income generation. This paper therefore, examines the impact of financial literacy on smallholder farmers' savings mobilization. This study uses a survey data of 258 farmers in the Eastern region of Ghana and explores the relationship between financial literacy and saving mobilization using IV-probit and IV-tobit. The result shows the following: 1) Financial literacy is significant and positively related to savings mobilization but it square is inversely related to saving mobilization. This indicated a nonlinear relationship between financial literacy and saving mobilization. 2) Financial literacy is significant and positively related to the amount of money saved but it square showed a negative relationship, i.e., there is an inverted U-shape. This result is an indication that financial literacy in developing countries like Ghana does not inevitably lead to saving mobilizations.

Zulfiqar Ali and Md Jamirul Haque

CEO OVERCONFIDENCE, INSTITUTIONAL INVESTORS, AND FUTURE FIRM RISK: AN ANALYSIS OF CHINESE LISTED FIRMS

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Overview

This study endeavors to determine how CEO overconfidence influences firm risk over the subsequent years in a sample of Chinese listed firms. It further examines the moderating effect of institutional investors on the association between CEO overconfidence and future firm risk.

Methods

The initial sample consists of Chinese A-share issuing firms listed on Shanghai and Shenzhen Stock Exchanges during the period starting from 2000 through 2017. This study classifies a CEO as overconfident if the forecasted profits of the firm are greater than the actual profits for majority of the time during the tenure of the CEO. OLS regression is used as primary estimation method for generating the results, however, fixed effect regression has also been used for verifying the robustness of the results.

Results

The results demonstrate that CEO overconfidence leads to an escalation in firm's risk level over the subsequent years. However, the intensity of this positive association is weaker in SOEs. Only active institutional investors, specifically mutual funds and foreign institutional investors play their governance role in reducing the effect of CEO overconfidence on firm's risk level. Additional analysis reveals that the moderating effect of active institutional investors is weaker in SOEs as compared to NSOEs. These estimates are robust to alternative model specification and to alternative measures of overconfidence and future firm risk.

Conclusion

The empirical evidence obtained by this study provides insights to the management regarding negatives consequences of overconfidence. It also implies that regulators and policy makers should formulate strategies for motivating mutual funds and foreign institutional investors to increase their shareholding in Chinese firms.

Keywords: Overconfidence, firm risk, external governance, institutional investors, China

ENERGY MARKETS, COMMODITY MARKETS AND ALTERNATIVE INVESTMENTS 1

Zulal S. Denaux, Furkan Emirmahmutoglu and Tolga Omay
REGIME DEPENDENT CAUSALITY RELATIONSHIP BETWEEN ENERGY CONSUMPTION-GDP GROWTHS: EVIDENCE FROM OECD COUNTRIES

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Overview
The aim of this paper is to investigate the energy consumption-GDP growth nexus for the period from 1971 to 2016 for 26 OECD countries. The prevailing studies in the literature are using limited econometric methodologies which may wrongly model the underlying relationship and lead to misleading policy conclusions.

Methods
In this study, as a preliminary analysis, we first examine the existence of cross-sectional dependence in variables by utilizing the Pesaran (2015) test and then we investigate stationarity properties of energy consumption and GDP. In order to examine the cointegration relationship, the linear error correction based panel cointegration test developed by Westerlund (2007) is employed. Although the linear panel cointegration test indicates no cointegration relationship among the series, we find evidence of cointegration after allowing for nonlinearity in the long-run relationship. Then, a panel TAR vector error correction model is applied to investigate the short-and long run causalities between energy consumption and GDP growth under two regimes. For that reason, a regime-wise Granger-causality test for a nonlinear panel regression model is proposed, and the causal relationship between the variables for each regime separately is examined.

Results
Our results offer several important findings for both researchers and policy makers. Our study empirically find that conventional linear models might be inappropriate for examining both long- and short-run relationships between energy consumption and GDP growth. Therefore, the researchers must take into consideration of possible nonlinearities in examining the causal relationship between energy consumption and GDP growth. Regarding the policy recommendations, the policy makers must take into consideration the causality relationship under different regime. In the recession (low) regime, a unidirectional causality running from GDP growth to energy consumption growth is empirically found, suggesting the conservation hypothesis.

Conclusions
It can be concluded that any energy consumption conservation policy is expected to have no or a modest impact on GDP growth.

Sudan Zhao
AN ANALYSIS OF INFLUENCE FACTORS OF CARBON TRANSFER IN CHINA – BASED ON THE VAR MODEL

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Overview

China is the largest exporting country as well as the largest carbon emission country in the world. There is no doubt that China has undertaken some exogenous carbon transfer. In this situation, China's responsibility of lowering down carbon emission is highly correlated to defining the carbon transfer into China. This paper introduces a conservative method for calculating carbon transfer based on input-output model. Meanwhile, the influence of different factors such as Research and Development (R&D), trade balance (TB), foreign direct investment (FDI), per capita GDP (PGDP), gas-consumption proportion (GP), and fuel price index (FPI) on carbon transfer in China is also analyzed by building up Vector autoregression (VAR) model (from 1990 to 2017). It is found that carbon transfer in China is significantly correlated to trade and FDI, the carbon emission is partly devoted by world division. While this correlation is not found in fuel price changes, indicating that carbon transfer is mostly occurred in backward production sectors who will keep their fuel consumption anyhow. The impact of R&D on carbon transfer is divided into two aspects. On the one hand, the short-term development of technology reduces the marginal cost of production, prompting producers to expand production and make more carbon emissions. On the other hand, in the long run, the development of technology will decrease the energy consumption per unit GDP and effectively improve the production efficiency. With these results, we may reach the conclusion that not only the direct emission country but also the final product consumption country should take the responsibility of lowering down carbon emission, only international cooperation and solid unity will address the problem eventually. In addition, China should keep on increasing investment in Research and Development, and make more efforts in fully exerting its positive effects in the long run to enhance energy efficiency, so as to keep the carbon emission down.

Key words: Carbon transfer; FDI; VAR Model

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FDI'S IMPACT ON CHINA'S ECONOMIC GROWTH, TECHNOLOGICAL INNOVATION AND POLLUTION

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Overview

In recent years, China has gradually become one of the countries with the largest level of foreign direct investment (FDI). FDI has played a significant role in promoting Chinese economic development, and the FDI technology spillover effect is one of the core forces driving China to generate new growth points. Therefore, to seek development, there is competition for FDI throughout China. However, the existing imperfect environmental protection system cannot prevent FDI from flowing into China's highly polluting and high-consumption industrial chain, possibly causing serious environmental problems. Therefore, how to properly introduce foreign capital to promote development and effectively end China's current environmental pollution crisis has become a research focus. To explore FDI's impact on China's economic growth, technological innovation and environmental pollution, we use 2004-2015 Chinese provincial panel data to construct a simultaneous equation model for these four factors. First, we estimate the two-stage least squares of a single equation. Then, the internal relations of the equations are considered and entered into the same system for the three-stage least squares (3SLS) estimation. We conduct various tests on the estimation results to draw the final conclusion. Our results show that the direct impact of FDI on China's economic growth is negative; however it has a significant positive effect on improving domestic technological innovation capability. Simultaneously, there are differences in FDI's impact on different pollutants. Finally, we present some targeted suggestions for policymakers.

Key words: FDI; economic growth; innovation; pollution; panel simultaneous equation model

Isaiah Oino

FOREIGN DIRECT INVESTMENT DRIVERS, IS SUB-SAHARAN AFRICA A DIFFERENT CASE? USING THE COINTEGRATION APPROACH

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Overview

The growth of the economy is fundamental to economic and social well-being. Factors that can be attributed to economic growth include foreign direct investment. Using the cointegration approach, data from 1991 to 2015 from three major economies in sub-Saharan Africa that represent East Africa, SADc and Ecowas regional grouping is used to analyse the major determinants of foreign direct investment. The study only included countries with complete data. The results indicate that countries with well-developed infrastructure are likely to attract foreign investors. Likewise, a higher return on investment, is significant in influencing foreign direct investment. Confirming previous studies in developed economics, the results indicate that openness to trade is significant in attracting foreign capital. The research demonstrates the urgent need to improve infrastructure, streamline red tape and reduce the cost of operations, including taxation.

Keywords: FDI; sub-Saharan Africa; growth; infrastructure; investment

Bilge Öztürk Göktuna and Merve Hamzaoğlu
AN ENVIRONMENTAL PERSPECTIVE ON THE ORGANIC FOOD MARKET IN TURKEY

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Merve Hamzaoğl: Galatasaray University

Overview
Industrialization and modernization have several negative impacts such as pollution and soil erosion which call into question the sustainability of production systems. Land is the natural resource of many economic activities, including agriculture. Alternative systems to the conventional agricultural system have been sought to solve problems such as environmental pollution, reduction and degradation of domestic seed species, soil erosion, reduction of animal welfare. Organic agriculture and the food market constitute one of the most important alternative systems to conventional agriculture. The purpose of the study is to look into the demand for organic food in Turkey from an environmental perspective. The study aims to understand whether Turkish organic food consumers are environmentally aware. For these reasons, a survey in form of a questionnaire has been conducted in 3 metropolitan areas in Turkey. The participants have been asked about their attitudes towards organic consumption and environment. The questions on environment include environmental concerns in terms of importance of environmental pollution, contribution to recycling and ecological selectiveness in food consumption, need of information on country of origin of products, whether they are produced in an environmentally friendly environment with proper packaging for recycling and without drugs and environmental knowledge such as knowledge on environmental issues like acid rains, water pollution, carbon emissions and greenhouse gas releases and world hunger. The results are analyzed according to socio-demographic characteristics and different dimensions to environmental concern.

FINANCE 1

Mohamed Goaied and b Amira Gasmi
THE BREAKDOWN OF THE LINK BETWEEN FINANCE AND GROWTH: TYPE OF CREDIT MATTERS

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Overview

Recent literature has established a decline of the impact of finance on growth during the last decades. This nexus becomes problematic and detrimental. We revisit this issue using a novel large dataset1 allowing us to discern the distinctive real effects of household and enterprise credit markets in developed and developing countries. Empirical results, based on two panel data techniques, support that higher allocations of household credit are an impediment to economic growth. We find that firm credit expansions are conducive to economic growth but the relevance of this link vary across sample considered and technique used. Otherwise, econometric findings for developing countries document delayed effects of debts on growth and put in evidence a feedback effect from real economy to credit markets. In conclusion, credit composition alters the complex link between finance and growth.

Hanna Kociemska
CAN CONVENTIONAL PRIVATE PARTICIPATION IN INFRASTRUCTURE INCORPORATE ISLAMIC FINANCE REQUIREMENTS?

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Overview

Sub-Saharan Africa needs funding for infrastructure, which is challenging to attract using conventional solutions given the governing requirements of Islamic finance. In a comparative statics setup, I indicate the conditions under which public-private partnerships (PPPs) are a viable organizational form of public services. I point out the tradeoff conditions under which public and private investors can reach their expectations of maximizing profit and social well-being in sync. Based on the observed socio-economic trends, conventional–Islamic PPPs can enable the development of public services with a strong emphasis on social welfare.

Methods

The paper explores the theory of both canons and, using deductive reasoning by posed axioms, leads to establishing the assumptions of the theoretical approach to heterodox public-private partnership. The proposed method of comparative statics affects the ability to find common platforms between mainstream public finance and the Islamic Moral Economy through the example of public-private investment projects.

Results

The feasibility of the endeavor is subject to trade-offs between profit maximization and social justice values. The author shows the assumptions under which this compromise is beneficial to public entities, multicultural societies, and conventional and Islamic investors. Conclusion The opportunity of this approach depends on the compromise between profit maximization as the sole investment objective and investing alongside social justice values. Private investors achieve the capped level of profit on a long-term contract basis, and public partners obtain long-term contracts for servicing public goods. Both undertake the project with a strong emphasis on corporate social responsibility in developing Islamic countries.

Mohammad Kabir Hassan, Andrea Paltrinieri, Alberto Dreassi, Salman Bahoo, Ashraf Khan
A BIBLIOMETRIC REVIEW OF TAKAFUL LITERATURE

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Overview

Takaful represents a growing financial segment addressing the insurance needs of Islamic societies and economies. Nonetheless, only recently the related literature achieved a significant number of contributions. Therefore, it has not been yet explored how research streams are evolving, where gaps in academic knowledge are, as well as which papers, authors and journals are more influential in this field. We provide a thoroughly analysis of existing contributions on Takaful, by adopting a meta-literature methodology that encompasses both a bibliometric (quantitative) and content (qualitative) analysis. By reviewing 65 articles, we aim at providing a rigorous background for the Islamic finance industry, its societies and economies, academic research and policymakers. We identify and review three leading research streams on Takaful: its overview, growth paths and models; governance mechanism; products/services and customer perception. We also identify the leading academic institutions, countries, journals, in this literature, as well as authors, their co-authorship networks and their role in these streams. Finally, we derive and summarize 13 leading future research questions based on meta-literature review.

Keywords: Takaful, Meta-Literature Review, Bibliometric Citation Analysis, Content Analysis, Islamic Finance, Islamic Insurance

Tadeusz Dudycz
DOES THE PAR VALUE OF SHARE INFLUENCE THE SUCCESS OF IPOS?

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Overview

This paper examines the impact of the par value (also known as nominal value or face value) on the success of new issues during initial public offering (IPO) and the subsequent efficiency of companies. The study is based on a sample of IPO firms which went public on the Warsaw Stock Exchange from 1998 to 2013. The paper shows that the concept of par value – which was invented to protect buyers and lenders against shares being issued without corresponding existing assets – interacts with investor behaviour and can be used to improve the success of a share issue. The paper also shows that this concept does not affect the profitability of companies after IPO.

Keywords: Par value, Share capital, Signalling, Creditor protection, Corporate law, IPO, WSE

Karine Teixeira Borri and Aquiles Elie Guimarães Kalatzis,
FINANCING R&D INVESTMENT IN EMERGING ECONOMIES: DOES LIQUIDITY AND CREDIT MARKET MATTER?

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Overview
Innovation is regarded as a key source of competitive advantage and economic growth. The implementation of proper instruments to foment innovation requires a clear discernment of the necessary tools and funds to operate efficiently. However, although innovation has been considered an essential channel for investment and economic development, the literature is still deficient in studying how it is affected by financial frictions. In this study, we investigate if the availability of internal and external resources impact the investment in R&D for firms in emerging countries.

Method
We analyze the R&D expenses of 1133 firms in 19 emerging economies over 2010 to 2017. Although the literature has been extensively used the GMM-system to treat the endogeneity problem, we also employ the Maximum Likelihood of Structural Equation Model (ML-SEM) for dynamic panel data to compare the results. The ML-SEM approach allow us to address the endogeneity problem of the lagged dependent variable with a considerable flexibility and to allow the unobserved effects to have correlations with the time-varying predictors in a more efficient way than the GMM approach and several conditions. The endogeneity in corporate finance remains an essential concern to be considered as point out by Roberts and Whited (2013).

Results
Our findings highlight the importance of the R&D-cash flow sensitivity by imposing an explicit relationship among the unobserved effects, financial variables and R&D expenses via structural model. In addition, the role of the cash flow on R&D investment remains meaningful even when controlling for liquidity management. Considering the effect of credit market, we observe that the more developed the financial system the greater the liquidity availability and the lower the dependence on internal resources for financing new R&D projects. This result evidence that emerging economies are mostly bank-based financial systems, suggesting that credit supply is an important channel to finance R&D, particularly for young and small firms.

Conclusions
Considering Structural Equation Model for dynamic panel data which allow us to treat the endogeneity problem in a more flexible way, we provide evidences about the relevance of liquidity management and the role of the credit market to promote investment on innovative activities for emerging economies. We also find that given the characteristics of R&D, the financing of innovation projects by external sources may be very expensive. The results also indicate that expansion in the credit system drives R&D spending in emerging countries, especially for young and small firms by reducing their cash requirements to new investment projects in innovative activities.

CORPORATE FINANCE 1

Yue Cao, Yizhe Dong, Diandian Mac, Li Sun
CUSTOMER CONCENTRATION AND CORPORATE RISK-TAKING

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Overview:
The financial benefits of having major customers tend to give suppliers the financial resources and motivation to increase their investment activity, a situation that may signal a positive relationship between customer concentration and corporate risk-taking. However, the risks posed by a highly concentrated customer base can deter suppliers from undertaking investment, and thus a negative relationship may exist between customer concentration and corporate risk-taking. Due to the distinctive regulation environment in China, we measure customer concentration differently from how it is measured in US settings. We find that although overall customer concentration significantly reduces corporate risk-taking, our panel threshold model indicates significant threshold effects. Specifically, when customer concentration is below the first threshold, it is positively associated with corporate risk-taking, suggesting that a lower level of customer concentration does not pose a significant risk but more likely benefits suppliers financially and encourages them to engage in more investment activities. When the customer concentration is above the second threshold, it negatively affects corporate risk-taking, indicating that a highly concentrated customer base prompts suppliers to take more precautionary measures and avoid additional risks by constraining investment. Documenting the threshold effects of customer concentration on corporate risk-taking should be of interest to business practitioners, regulators and academics.

Keywords: customer concentration; corporate risk-taking; threshold effects

Jun Huang, Yating Zeng, Guowei Zhu
CORPORATE SOCIAL RESPONSIBILITY, VENTURE CAPITAL AND CORPORATE INNOVATION: EVIDENCE FROM CHINESE SMES

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Abstract

"Mass entrepreneurship and innovation" has become a new engine for China to develop the economy and the means to guide economic transformation. Small and medium-sized enterprises(SME) have contributed more than 70% of corporate innovation and thus become the main force to implement the innovation-driven strategy in China.

Based on stakeholder theory and knowledge-based view, we analyze the relationship between CSR and corporate innovation of SEM, and develop H1: there is a positive relationship between CSR and corporate innovation. Then we further analyze the impact of venture capital (VC) on the relationship between CSR and corporate innovation. We develop two competitive hypotheses, H2a: the involvement of VC enhances the relationship between CSR and corporate innovation; H2b: the involvement of VC weakens the relationship between CSR and corporate innovation. To test the above hypotheses, using a sample of firms listed on the SME board and the Growth Enterprises Board of Shenzhen Stock Exchange over a period 2015-2017, we find that CSR will promote corporate innovation. Furthermore, we find that the involvement of VC weakens the relationship between CSR and corporate innovation.

The contribution of our study is three-fold. First, rather than focusing on the innovation of big companies, our study extends to explore the relationship between CSR and corporate innovation of Chinese SMEs. Second, rather than measuring the general CSR, we explored the impact of specific dimensions of CSR on corporate innovation. Third, previous researches focus on either the relationship between CSR and corporate innovation or the relationship between VC and corporate innovation and show mixed results. We infer that due to the compounded role of VC, the relationship between CSR and innovation could be contingent.

Maho Shiraishi, Go Yano
THE ZOMBIE FIRMS AMONG PRIVATE FIRMS IN CHINA

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Abstract

This paper investigates whether the appear among private firms within the context of emerging and developing economies such as ChinaThe emergence of ′zombie′ firms among state-owned enterprises (SOEs) mainly due to their easy access to formal finance such as bank loans is frequently pointed out in the context of China. Meanwhile, do not the ′zombie firms′ appear among private firms with limited access to formal finance in China? This is the research question tackled by this paper.

Go Yano and Maho Shiraishi
ECONOMIC AND POLITICAL MOTIVATIONS IN DEBT FINANCE IN CHINA: BANK LENDING AND TRADE CREDIT OFFERING

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Overview:
Using matched datasets constructed from firm-level micro data, hand-collected bank branch data, and foreign bank entry information, this study examines economic and political motivations by banks and supplier firms in bank lending and trade credit offering in China. First, statistical evidence shows that economic motivation is dominant over political motivation in bank lending and trade credit offering to private firms in China. Second, competition among domestic banks and with foreign banks has been found to motivate mainly domestic banks to lend money to private firms by economic motivation, in other words, judgment based on borrower firms' performance. Third, more intensive market competition between firms intensifies supplier firms' trade credit offering by economic motivation. Fourth, a private firm's political connections and more easily collateralized assets diminish the economic motivation to find better-performing borrower firms in bank lending to private firms.

Muhammad Farooq Shabbir, Ye Xin, Muhammad Salman Shabbir, Jawad Iqbal
THE IMPACT OF GOVERNANCE STRUCTURE ON FIRM EFFICIENCY AND PROFITABILITY: EVIDENCE FROM EMERGING STOCK MARKETS

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Overview

The significance of corporate governance has resurged recently since the researches showing a link between well-founded corporate governance structure and firm performance (Starks & Wei, 2013; Huang, Cheng, Li, & Wei, 2014). However, there have been some reservations about the method used to measure firm performance. The profitability measures have some drawback, for instance it depends on extraneous and unrelated factors like market growth, demand, taxes, exchange rate, etc. (Zhang and Ouyang 2017).

Hence, efficiency as a proxy of firm's performance may produce better results because of its more realistic approach (Destefanis and Sena 2007). The contribution of dysfunctional projects cannot be assessed with financial measures Shleifer & Vishny (2016). Therefore, impact of unproductive decisions ignored by the financial ratios can be captured by efficiency.

Method

The performance is measured by efficiency ratio and profitability ratios. Data Envelopment Analysis with variable return to scale (VRS) approach has utilized to measure the efficiency of firms (Lyu & Shi, 2018; Carlucci, Cirà, & Coccorese, 2018). Profitability is measured through ROA, ROE, ROCE and EPS ratios. Governance index is constructed utilizing Gompers, Ishii and Metrick (2003) approach. Data is extracted from ThomsonOne data base and Wind Financial database consisting the time period of 2005 to 2016. Six emerging stock indexes were analyzed including SSE180, TSE100, KOSPI100, BSE100, IDX – LQ45 and SIT.

Results

The framework of this study enables to estimate the role of governance structure in firm performance particularly in emerging markets. Moreover, initial results revealed that the governance variables have more significant impact on firm efficiency as compare to profitability. The corporate governance information is an important element for investors when making investment decisions. Therefore, this study provides deeper empirical insights for investors and managers to analyze the firm performance.

Conclusion

The composition of governance structure can be utilized to enhance performance of companies in emerging markets. The results revealed the seriousness of emerging markets to comply with corporate governance to attract investors. The use of alternative method to measure firm performance may attract researchers and practitioners to avoid drawback of conventional performance measures. In the era of rapid globalization and the expanding economic integration, this examination offers a road map to other emerging markets to improve their corporate structure.

MONETARY POLICY, FISCAL POLICY AND CENTRAL BANK 1

Andrea Boltho
SOUTHERN AND EASTERN EUROPE IN THE EURO: CONVERGENCE OR DIVERGENCE ?

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Abstract
A number of studies have reached the conclusion that, contrary to expectations, European Monetary Union has not reduced income or institutional disparities amongst the 12 Western European founding member countries. In particular, there has been increasing divergence in income per capita between Southern Eurozone member countries and the more prosperous Northern Eurozone members since the Euro Area was created, in contrast to earlier trends which had seen rapid income per capita convergence across Western Europe. The present paper revisits this issue and investigates whether something similar occurred in the five East European countries (Estonia, Latvia, Lithuania, Slovakia and Slovenia) which joined EMU between 2007 and 2015. The conclusion is that, despite some similarities with Southern European trends from 1999 to 2017 in the evolution of private and public debt levels, overall developments in Eastern Europe were different and led to convergence rather than divergence. Important reasons for this were Eastern Europe's relatively high standards of institutional quality, a politically motivated determination to firmly anchor these countries to the West and, possibly, the legacy of pre-war history.

Lyazzat Sembiyeva
MONETARY AND FISCAL POLICIES AND THEIR EFFECTS ON THE ECONOMIES

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Overview
Instability in global financial markets, particularly in developing ones, requires a revision of the approaches to monetary and financial policies. The growing importance of monetary policy for the modern Kazakhstan economy is underpinned by more established and developed market-based economic management methods, as well as by the transition of the economy to sustainable development. Nevertheless, it can be noted that this policy has not been so far quite effective. To a large extent, this is due to the lack of national research into the theoretical and practical issues of monetary impacts on the economy, known as the transmission mechanism.

Method
The National Bank of Kazakhstan selected the Czech model as the basis for the formation of a transmission mechanism. According to the National Bank's estimates, quantitative estimates of monetary policy impacts on inflation can be obtained using the transmission model, the Pi-Star model (potential inflation model) and the vector autoregressive model (VAR model), which help to analyze inflation responses to changes (shocks) in macroeconomic indicators, including money supply.
It is commonly known that, depending on the level of economic development, the quantitative and qualitative composition of monetary transmission channels affecting the economy is limited. Generally, without taking into account the national characteristics of specific countries, four monetary transmission channels are most often mentioned in modern financial systems of developing countries: the interest rate channel; the welfare channel; the exchange rate channel, and the credit channel. For a more complete coverage of the impact of monetary and fiscal policies on economic growth, we have taken the period from 2007 to 2018, starting with the first major financial crisis that hit Kazakhstan.

Results
In general, as the analysis of the transmission mechanism shows, the low efficiency of monetary policy is mainly related to poor harmonization of monetary policy instruments with each other and insufficient linkages with economic processes. For most emerging market countries, the common thing is that the most probable channels of money transmission are not directly connected with the policy pursued by the monetary authorities, and are more likely to be the consequence of changes in the fundamental drivers of an economy.
Since, currently, most transmission channels in Kazakhstan cannot function effectively for one or another reason, the authors propose a comprehensive model that ensures the monetary and financial policy is oriented towards addressing the challenges of economic growth.

Conclusions
Consequently, we propose a stronger harmonization of the policies of the National Bank and the Government to provide conditions for the growth of real production, particularly, with regard to the regulation of prices and tariffs for services of natural monopolies (electricity, rail, gas), as well as reforms in the system of price subsidies for social services (housing and utilities, public transport, education, health care), in the tax policy (primarily changes and indexation of indirect taxes, for instance excise taxes), and in the customs policy on imports (import duties).
To sum up, the model we propose links monetary and fiscal policy, which will create an incentive for the development of production and saturation of the domestic market with products, and will increase the resiliency of the national economy against fluctuations in the foreign economic situation while making it possible to manage inflation effectively. Monetary policy, along with the fiscal and structural policy, is the most important tool in the hands of the state to regulate the economy for stable growth.

Patricia Gomez-Gonzalez
EMERGING MARKETS' INFLATION-LINKED PUBLIC DEBT: INSTITUTIONAL FACTORS

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Overview
Emerging markets' inflation-linked (IL) debt issuance has increased dramatically in recent years. Since 1995, emerging markets' IL debt issuance, as percent of GDP, has increased by more than 20 times. However, the popularity of this type of debt is extremely uneven across emerging markets. For example, in 2016, some countries issued, on average, 25% of their public debt in this manner, while others issued none. The aim of this study is to explore the institutional factors behind the cross-country differences in IL debt issuance

Methods
First, the study compares, using regression analysis, the means of inflation, the exchange rate, the shares of local currency (LC) and foreign currency (FC) debt, as well as LC and FC rates for two groups of countries: high IL debt economies and low IL debt economies. Second, the study builds on the optimal public debt management literature and concentrates on three relevant variables to understand the variation in IL debt: monetary policy credibility, exchange rate stability, and inflation volatility. The study runs cross-country regressions of the share of IL debt on the three previous variables. Finally, it considers inflation statistics accuracy as a driver of recent changes in IL debt.

Results
The study finds that high and low IL debt economies differ in the share of LC debt and LC rates but not in the levels of inflation, exchange rates, FC debt, nor FC rates. The study also finds that exchange rate stability and monetary policy independence can explain a large part of the cross-country differences in IL debt issuance. However, inflation volatility cannot. Finally, inflation statistics accuracy can explain the large Argentinean drop in IL debt between 2008 and 2015.

Conclusions
This study shows that the data is consistent with IL debt acting as a commitment device in economies lacking monetary policy independence. For economies facing volatile exchange rates, IL debt is a good alternative to FC debt. They both solve a similar time-inconsistency problem, but IL debt, being in LC, smooths the government's tax burden. Moreover, the analysis highlights the importance of inflation statistics accuracy to sustain or increase IL debt issuance over time.

Mouyad Alsamara
THE ASSYMETRIC IMPACT OF NOMINAL EFFECTIVE EXCHANGE RATE ON THE DEMAND FOR MONEY IN GCC COUNTRIES: NEW EVIDENCE FROM NONLINEAR DYNAMIC PANEL ESTIMATION

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Overview:
This paper investigates the asymmetric impact of changes in Nominal Effective Exchange Rate (NEER) on the stability of money demand (MD) function in the GCC countries over the period 1990:Q1-2016:Q4. The main emphasis of this paper is on the nonlinear response of MD to individual's currency substitution under fixed exchange rate regime in GCC region. To this end, we employ the recently developed dynamic heterogonous panel estimation method with cross sectional dependence (CSD) such as the Dynamic Common Correlated Effects (DCCE) developed by Chudik and Pesaran (2015). Moreover, we account for the asymmetric impacts of NEER on MD by constructing the NEER index based on 18 trading partners and decomposing this index to its positive and negative changes. The empirical results show that there is strong evidence for a stable long run relationship between real money demand, real GDP, foreign interest rate and the two parts of nominal effective exchange rate. Real GDP and foreign interest rate have a significant positive and negative impact, respectively, which capture both the scale and the opportunity cost impacts of holding money. The distinguishing result is that the positive and negative changes of NEER have a negative and asymmetric impact on the demand for money, but negative changes (depreciation) are more dominant. This finding implies that the asymmetric individual's money demand response to NEER changes and currency substitution mostly occurs when currency depreciation takes place in GCC countries. Finally, the overall picture of these results and the surprising result of NEER asymmetries consider a new framework for monetary policy strategy in GCC countries and their fixed exchange rate regimes.

Key words: Money Demand, Nominal effective Exchange Rate, and Nonlinear Dynamic Panel

Jakub Rybacki
FISCAL DEFICIT FORECASTS BY INTERNATIONAL INSTITUTIONS: EVIDENCE FOR THE DOUBLE STANDARD?

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Overview
Fiscal forecasts produced by international financial institutions came under strong criticism after the Eurozone sovereign debt crisis due to overly optimistic estimates for heavily indebted countries like Spain, Italy, and Portugal. The current situation is more complicated. In the face of strong divisions on European political landscape, international organizations have been accused of applying a double standard. Opponents often claim that international financial institutions depict a more negative picture for governments described as populists in the mainstream media than for other governments. The aim of this paper is to evaluate fiscal forecasts provided by the International Monetary Fund (IMF), European Commission, and the Organization for Economic Co-operation and Development (OECD).

Methods
Our analysis is based on a panel of the European Union economies, other OECD members, and some large non-OECD economies (e.g., China). We decomposed the fiscal forecast errors to three components being explained by (1) wrong macroeconomic assumptions, (2) potential data revisions, and (3) political variables Amongst political indicators we introduce Worldbank governance indicators describing dedication of the government to preserving the a rule of law. We also include dummy variables describing whether the excessive deficit procedure is open to a country, and dummy variables related to those governments described as populist by the mainstream press. These governments are ruled by the parties such as the Polish PiS, the Romanian PSD, the Italian M5N and Lega Nord coalition, and the Hungarian Orban's Fidesz.

Results
Five years after the sovereign crisis we still find evidence for systematic positive bias and strong autocorrelation of ex-post fiscal forecast errors. In Europe all organizations systematically present overly optimistic deficit forecasts for Portugal and Spain and to a lower extent for Italy. Moreover the European Commission and the OECD are being indulgent to countries under the excessive deficit procedure. On the other hand we find no strong evidence suggesting that fiscal forecasts stigmatize the governments accused of populism or violating the rule of law. Finally in case of the European emerging economies some kind of wishful thinking is present – European Commission overestimates the governments' propensity to tighten fiscal policy during an expansion period of the business cycle and present overly pessimistic picture during a slowdown.

Conclusions
The lenient approach to indebted countries and economies under corrective arms of excessive deficit procedure may result from fear of triggering negative confidence shocks. The mentioned problem could be also a result of excessive trust in government predictions. Still the results of underestimating the scale of government deficit have negative consequences. While Spain managed to reduce sovereign debt in relationship to the GDP, Italy, France and Portugal are still heavily indebted.

INTERNATIONAL TRADE, CAPITAL FLOWS AND FOREIGN EXCHANGE MARKET 1

Meruyert Narenova
MODERN KAZAKHSTAN ECONOMY DEVELOPMENT: CHALLENGES AHEAD

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Overview
Kazakhstan has achieved remarkable results in transition to market economy since the state had gained its sovereignty and within two decades became the high-middle income country. However, mainly this growth is based on resources -extracting sector of economy and currently country has tackled challenges of achieving long-term sustainability. Among key challenges are productivity growth, development of processing industries with high value-added, regional development and some others.

Methods
Recent statistical data was analyzed to understand dynamics and trends of economic growth in Kazakhstan, Method includes quantitative and qualitative analysis of economic data describing Kazakhstani economy development during last decades. Macroeconomic analysis of economy and productivity growth are highlighted.

Results
Kazakhstan economy shows positive results of development and is triggered on mineral sector. Country is still dependent on its natural resources. Kazakhstan growth model has not developed engines to get log-term sustainability, for which productivity is a main driver.

Conclusions
In order to be more competitive Kazakhstan is to redefine its growth model and find new drivers for sustainable growth in the future. Policy measures should focus more on increasing productivity and move towards high-value added industries.

Willem Thorbecke and Nimesh Salike
EXPORT SOPHISTICATION AND TRADE ELASTICITIES

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Overview:
Does a country's export structure impact the way that exchange rates affect trade? Do more sophisticated products exhibit lower demand elasticities? Using panel data for major exporters over the 1992-2016 period and dynamic ordinary least squares techniques, we find that price elasticities are higher for low-technology goods such as textiles and footwear than for high-technology goods such as pharmaceuticals and medical equipment. We also find that elasticities are larger for less advanced countries such as China than for more advanced countries such as Switzerland. We draw policy implications from these findings for countries exposed to safe haven capital flows, for countries facing long-term appreciation pressures, and for countries that specialize in low-technology exports.

Keywords: Exchange rate elasticities; Export sophistication

Hassan Hamadi, Ali Awdeh
MARKET STRUCTURE AND BANK BEHAVIOUR IN THE MENA REGION

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Overview:

This paper aims at detecting the applicability of the Structure-Conduct theory in the MENA banking sectors, with particular focus on the bi-directional effect between Market Structure and Bank Conduct. To do so, we study 15 MENA banking sectors over the period 1996-2016. Using a 2 stage least square estimation on a system of structural equations, the empirical results suggest that Structure-Conduct theory does prevail in the MENA banking system. In other words, the level of market concentration does affect the pricing behaviour of banks, and similarly, the pricing power of banks does alter the structure of these banking markets.

Key words: SCP, MENA, Banking Concentration

Ashraf Khan
THE ROLE OF TRADE AND FINANCIAL OPENNESS IN FINANCIAL DEVELOPMENT AND REAL ECONOMY: EVIDENCE FROM ISLAMIC BANKS OF GCC REGION

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Overview:
The recent wave of liberalization in GCC countries has opened up a debate on the role of Islamic finance in the financial development of an economy. In this paper, we analyze the impact of trade and financial openness on financial development in the GCC region by using a comprehensive dataset of 42 Islamic and 57 conventional banks for the period of 2007-2015. We find that trade and financial openness have a positive impact on Islamic bank profitability but simultaneous openness to both trade and capital markets will reduce the profitability of Islamic banks. Moreover, we find that trade and financial openness increase the loan volume but reduce the stability of Islamic banks.

Keywords: Trade openness, Financial openness, Islamic banks, Z-score, Distance-to-Default.

FINANCE AND MACROECONOMICS 1

Bana Abuzayed, *Mouldi Ben Ammar, Philip Molyneux, and Nedal Al-Fayoumi*
CORRUPTION, LENDING AND BANK PERFORMANCE

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Overview

Corruption is a widespread social, political and economic phenomenon. Generally, it represents the abuse of delegated public power for private benefits. Corruption can adversely influence economic development (Cooray and Schneider, 2018; Toader et al., 2018 and Lonescu and Caloian, 2016).For banks and their lending behavior, corruption can have mixed effects. One strand of literature finds that it puts 'sand in the wheels' of economic activity and in the context of banking leads to a misallocation of loanable funds from satisfactory loans with a low probability of default to bad projects that mostly end up as non-performing. (Beck et al., 2005, Detragiache et al., 2008; Park, 2012; and Chen et al., 2015). Another (somewhat more limited) strand of literature advances the opposing view noting that corruption 'greases the wheels' of economic activity. This only holds in cases where governance structures and institutional arrangements are weak (Aidt 2009; Méon and Sekkat 2005). As such, corruption can act as an 'escape hatch' in the presence of weak institutions.

Methods

This paper uses an extensive sample of banks from 160 countries between 2000 and 2016 to investigate the link between corruption, lending and bank performance. It uses country and bank-lending corruption, assesses loan growth using percentage change, abnormal and external growth, and considers the nonlinear loan growth effect on performance. The study also uses market and accounting measures of bank performance and analyze the effect of loan growth and corruption individual as well as interactive effect on performance. It assesses the influence of country and bank level corruption on bank lending performance relationship. The study uses robust econometric techniques and a number of robustness test to examine the above-mentioned relationships.

Results

The study finds that country and bank-level corruption has an adverse impact on bank profits and risks (credit, solvency and distance to default). Less excessive loan growth has favorite effect performance, although corruption can mitigate to a modest degree these effects. Corporate lending (in contrast to consumer and mortgage credits) are found to be most influenced by corruption. Bank-lending corruption are more harmful for banks, especially in developing countries. The study also finds that higher bank competition, less concentrations and better regulatory environment can reduce the effect of corruption on bank lending and performance.

Conclusions

Corruption is found to put 'sand-in the wheels' in terms of bank performance. The higher country-level and bank loan officers' corruption, the poorer bank performance. Overall, our findings have important policy implication for public authorities and policy makers. As corruption can hamper bank performance and mitigate the benefits of additional lending serious attention should be given for not only country level corruption, but also bank level lending corruption that directly affect banks in developed and developing countries. In the former, the authorities should seek to weed out corrupt practices at the country and bank level in order to boost banking industry performance. For developing countries, the policy focus on improving institutions and governance is likely to have a more positive influence on bank performance as dealing with corruption.

Bana Abuzayed and Nedal Al-Fayoumi
THE DYNAMIC CO-MOVEMENTS AND PORTFOLIO MANAGEMENT ACROSS EUROPEAN STOCK AND REAL ESTATE MARKETS

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Overwiev
Over a long term period, real estate investments are often considered as providing protection for investors during stock market deterioration (Simon and Ng, 2009; Kopyl and Lee, 2016). In this study, we will examine the validity of this argument through investigating the time-varying co-movements and portfolio management across European stock markets and Securitized Real Estate Investment Trusts (REIT) during the global financial crisis and European severion debt crisis.

Methods
Our sample covers the period from January 6, 2003 to April 11, 2018 and the empirical analysis for the time-varying correlation and portfolio weights and hedging are based on the estimated parameters from the corrected dynamic conditional correlation (cDCC)-GARCH model.

Results
The results reveal that there is a significant shift in the correlation coefficients between the two markets during the periods of market stress. As a result; the potential diversification benefits across these two investments will be shrunken.

Our study also indicates that, during crises periods, there is a significant increase in the hedging ratio that suggests taking a short position in REIT by investors would minimize the risk in a portfolio including just aggregate European equity investments. Therefore, at first glance, the REIT can be considers as an attractive hedging against adverse movements of stock markets. However, the higher hedging ratio requires investors to rebalance frequently their position in REIT to maintain the same level of risk for their investment in stocks. Consequently, higher transaction costs should be paid and casts doubt on its reliability for hedging

Conclusion
Using the REIT to enhance the diversification benefits or to improve hedging strategies for stock portfolios is doubtful. This result is also confirmed by a robust evidence of the inability of REIT to play a safe haven role against the downturn in the European stock markets. Our findings can provide useful insights for making trading strategies, assets allocation and designing portfolio structure.

Shakhizada Suleimenova and Nurlan Kurmanov
ROLE OF UNIVERSITIES INTELLECTUAL CAPITAL IN THE ECONOMIC GROWTH OF THE COUNTRY
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Overview
Intellectual capital been proved as a source of innovation and used to create competitive advantages for business owners, business managers, public policy makers, economists and researchers. This paper shows a study of most significant literature of measuring, reporting, and managing intellectual capital, the importance of impact of intellectual capital management and its relevance to university as business unit to create sustainable competitive advantage.

Methods
A literature review of the most important intellectual capital management initiatives at European and Russian universities shown. The variation models of intangibles measures analyzed and compared using qualitative and quantitative techniques. The case study method chosen as the key method of research because it allows see various qualitative relationships between the intellectual capitals of universities in different countries.

Findings
Despite the differences approach in different countries the study shown a general trend of the importance of measuring and managing intellectual capital. The experience gained from the case studies provides a basis for understanding how European and Russian universities are measuring and managing their intellectual capital.

Practical implications
The results of the study recommends steps for developing a reporting model of intellectual capital management at universities, and using the results of the report of intangible assets for the country economic progress.

Originality The intellectual capital approach becomes critical at universities, as a well-agreed tool of "knowledge economy" of the country's economy growth.

Keywords. Intellectual capital, innovation management, innovation development, university innovative management, innovation, research, academic entrepreneurship

JEL Classification: O11, O12, O15, O19, O32, O34, O35, O38, O41, O43, O47, O57

Lyazzat Sembiyeva and Eldar Karabayev
FEATURES OF EXTERNAL STATE AUDIT IN EMERGING MARKETS: KAZAKHSTAN

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Overview
The relevance of research. An integral part of the government is an external state audit, increasing its efficiency contributes to strengthening fiscal, financial and tax discipline in emerging masrteks. External state audit as one of the solutions to existing problems and determining development directions is an urgent task of our state. Every year the volumes of the republican budget increase; the number of government and investment programs is growing; substantial public funds are allocated for economic development and the solution of social problems. However, the positive effect in the public sector of the republic is reduced as a result of non-compliance with the requirements of fiscal legislation, namely: the late transfer of fees, taxes and other obligatory payments, concealment of income, use of funds for other purposes, are ineffective and irrational.

Efficient use of budget funds is very relevant for Kazakhstan, as a country with developing economy, since the effective implementation of management decisions related to the use of the budget in the implementation of various programs depends on the level of achievement of the set goals of the country's economic development and ensuring the stability of its financial system. Today, a single approach is being introduced in the country to a qualitative external assessment of the implementation of state programs, taking into account both the specificity and uniqueness of each program, while there is no methodological basis for evaluating the effectiveness of their implementation, unequivocal assessment requirements in the areas of development in a particular area where the program is being implemented. To determine the effectiveness and efficiency of programs, there is an urgent need to develop methodologies, criteria and principles for evaluating the use of public funds in their implementation, taking into account the specifics of other government programs. In this connection, the role of checking the effectiveness of the use of funds from the republican budget, as one of the most active devices of state audit, is increasing.

World experience shows that government audit of the use of budgetary funds has a huge impact on the adoption and implementation by government bodies of management decisions related to the financial sector, contributes to increasing transparency and responsibility in their activities.

Therefore, today the importance of state audit is growing. Under these conditions, the scientific concept of state audit requires studying its theoretical foundations, determining the role and place of state audit in the system of managing public funds, determining the methodology for identifying problems associated with its use. This determines the relevance of the topic of theses devoted to the study of theoretical, practical and methodological problems of the state audit of the efficiency of the use of resources of the country.

The purpose and objectives of the study. The purpose of the thesis is to clarify the theoretical provisions of the state audit, to characterize the institutional content of the effectiveness of the use of funds of the republican budget and to develop practical recommendations for its improvement.

To achieve this goal, the following research objectives are established:
- to study the theoretical and methodological foundations and features of the external state audit, to determine its place, role in the system of economic management;
- to analyze the results of the external state audit on the execution of the state budget on the example of the implementation of the program documents in the Republic of Kazakhstan;
- develop proposals for improving the external state audit in the use of funds of the republican budget;

The object of the study are the bodies that carry out external state audit and financial control.

The subject of the research is the system of economic relations arising between the state audit bodies and audit objects.

Methods

The research methods included fundamental and applied scientific works of Kazakhstani and foreign scientists on the methodology of state audit. The research methodology is based on the use of scientific methods of knowledge, an integrated and dialectical approach. The research was based on legislative and regulatory acts of the Republic of Kazakhstan, analytical and financial reports of the Accounts Committee, ministries, reports of the Agency of the Republic of Kazakhstan on Statistics and other materials.

The scientific novelty of the research lies in the fact that, based on the study and synthesis of theoretical positions, analysis of a wide range of factual materials and foreign experience, the author conducted a comprehensive study on the organization of state audits, evaluation and analysis of the effectiveness of using budget funds and developed individual proposals for improving the external public audit. The most significant results obtained in the course of the study, and made to protect the following:

- the author interpreted the notion "external state audit";
- analysis of the activities of the state external audit bodies in the Republic of Kazakhstan;
- proposed the main directions of improvement of the activities of external state audit bodies.

Results

Theoretical and practical significance. The results presented in the form of separate theoretical propositions, conclusions and recommendations can serve as a basis for the further development of the domestic theory of the organization of external public audit.

The practical significance of the dissertation research is that the proposals and recommendations can be used by the Accounts Committee when conducting an external state audit of the budget of the Republic of Kazakhstan. Theoretical and practical results of the study are used in the training process at seminars, including international, to improve the skills of state auditors, as well as to train specialists in the specialty "State Audit".

Conclusions

The study of the theory and practice of external state audit will allow to draw separate conclusions. Based on the research, it can be concluded that in the Republic of Kazakhstan there is a system of state audit and financial control, consisting of external and internal state audit. At the same time, the external audit is presented by the Accounts Committee for Control over the execution of the republican budget and audit commissions, and the internal state audit is represented by the Ministry of Finance of the Republic of Kazakhstan.

External auditing helps an organization achieve its goals using a systematic and consistent approach to improving the effectiveness of risk management, control and corporate governance processes. At the same time, for the effective functioning of the state audit system in the Republic of Kazakhstan, it is necessary to adapt the positive world experience to the Kazakhstan practice. This will create a more effective monitoring tool to provide the state and society with high-quality independent information necessary to improve the efficiency of government and make important economic decisions at all levels.

Keywords: external state audit, public audit, efficiency, compliance, emerging markets, developing economy

Zhaniyat Baltabayeva and Aizhan Abibulayeva
TERMINOLOGICAL ASPECT OF WORDS EDUCATIONAL MANAGEMENT AND PEDAGOGICAL MANAGEMENT

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Overview
The content and correlation of a number of terms are revealed which used in education management; a comparative analysis of their interpretation in domestic and foreign publications is carried out. There are considered ways of translating English terms from the perspective of linguistics. The purpose of this article is to identify the existing of difference in the terminology of the science management of education in Kazakhstan and abroad.

Method
For solving the above tasks used a methodological analysis of foreign and domestic literature on the research topic, study and analysis of educational documentation, systematization of materials on the research problem, comparative analysis of the terms management, educational management and pedagogical management, and other methods of empirical, experimental and theoretical levels of scientific knowledge corresponding to research.

Results
Based on the results of a comparative analysis of the terms of education management used in domestic and foreign publications, we have identified significant differences in their interpretation. In Table 2 presents the semantic meanings of English terms and their correct translations into Russian.

Conclusion
We consider that the term "management" as a transliteration of English "management" is correctly used in education as applied to the management of organizations, as well as the name of an applied economic discipline that develops new methods of managing educational institutions or adapting methods used in business. In all other cases, the correct use of the Russian term "managing".