

## Chapter 77

# Making Innovation Development Policies Work for MENA: The Need for Entrepreneurship

**Mehtap Isik**

*Bogazici University, Turkey*

### ABSTRACT

*This chapter analyzes the Middle Eastern North African economies' growth prospects and investigates the role of entrepreneurial activities in achieving sustainable economic growth and social development. It explores the existing macroeconomic, political and social characteristics of the region and brings the different literatures together to understand the policy implications of theory and practices. The chapter shows that entrepreneurial activities can cure a lot of problem in the region as long as supported by the central authorities, and the region has a strong potential to be used by the entrepreneurs.*

### INTRODUCTION

This chapter aims to raise practical solutions to the major development and growth problems of the Middle Eastern North African region (MENA), which are theoretically supported. The main answers revealed by the theoretical surroundings are gathered around the entrepreneurial activities. Thus, the chapter proposes that the entrepreneurial activities are not only important for the individuals in the economy, but also for the salvation of the whole economy, in the development perspective. The study is based upon the strong connection between microeconomic and macroeconomic measures and emphasizes the importance of investing on entrepreneurship in MENA. Our analysis calls the policy makers to finance entrepreneurial activities and claims that it worth, because it pays back with economic development and growth at the same time both in the short and long run time.

To this aim, this chapter investigates the forces which drive trade and global integration in fostering economic development for the special case of MENA region. The extent to which we can attribute economic development to economic growth is a question on the one hand; we ask which structural reforms

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are actually missing in the region to achieve a faster economic growth and whether the pointed structural changes affect the economic measures as would be expected. A detailed investigation on the macroeconomic measures lead us to an answer where microeconomic approaches are required: Entrepreneurship.

Taking the new growth theories into account, the innovation and technological improvements are suggested as the main cure in most of the recipes for triggering development and economic growth at once. Then, the key ingredient in the production process becomes the entrepreneurial ability. In that respect, the institutional design in providing the required support for the innovational activities has to be at the center of the discussions, because the fulfillment of infrastructural necessities are significantly important especially if the macroeconomic environment is not ready for the entrepreneurial activities.

When it comes to Middle Eastern North African (MENA) countries, even in the process of identifying the major problems of the region, entrepreneurship arise as a major answer to many problems of the region. This study questions the existence of appropriate macro environment to support micro decisions of individuals and firms regarding to start-up new businesses and to investments on research and development activities which leads the economic growth and development, eventually.

The first section takes a macroeconomic snapshot of the region to observe its current economic situation in the world. The picture clues in on surprising facts regarding the links between development and growth. Controlling almost 60% of the world's oil, being controlled mostly by very strong autocratic governments, including the world's richest countries and some of the poorest countries together, being in a chronic post-conflict context, having a segmented and highly regulated labor markets, with social relations mainly shaped by Islamic rules, a huge unregistered economic production and almost lack of financial markets, the region differ from other developing regions sharply. Although there are considerable differences among countries in the region, the 90's data on the income inequality, poverty and health care demonstrate relatively low levels of poverty and equitable income distribution in compared to other developing regions. On the other hand, a more recent data shows a relative degradation with an accelerating growth of the other developing regions. In compared to countries in other regions at similar levels of income, the governments in MENA region look like more effective in distributing the social services and aids, but inadequate to support the accumulation of the capital required in manufacturing.

It is widely agreed upon that the economic growth generates suitable but not sufficient conditions for economic development. The poverty and inequality are linked to economic growth in an ambiguous way. Many works following Kuznet (1955) study how the economic growth affects inequality. While many studies shows a negative relation between economic growth and inequality (e.g. Perotti, 1996), some empirical works suggest that economic growth increases the inequality (e.g. Forbes, 2000). Indeed, Panizza (2002) shows that the method of measuring the inequality result in differences in the estimated relationship between inequality and growth. Recent works focus on how inequality affects the growth (Galor, 2011). Doyle and Stiglitz (2014) claim that inequality drags down growth in oppose to Krugman (Budis, 2014).

The way of causality between is not clear. However, empirical evidences show that East Asia has experienced a rapid growth and a relatively low level of income inequality at the same time. In contrast, Latin America and Caribbean region has experienced high levels of income inequality and almost zero economic growth over the same period of time (Birdsall et al., 1995). In the same period, the measures in the MENA region are surprising. Poverty indicators exhibit low levels of poverty and Gini coefficients which are similar to those of Europe with very low rates of GDP growth. (Adams and Page, 2003)

This study takes the tension between income inequality and economic growth into consideration, following Ravillion (2001) who explains how the gains from an economic expansion are utilized by dif-

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