
Regional Diversification and Middle Income Trap: Analyzing the Relationship in Turkey by Using Geographically Weighted Regression

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ABSTRACT

The fact that the fall in growth rate in per capita income in relation to nonincreasing productivity levels after a certain threshold in developing countries is called “middle income trap”. In most of the cases, the fall in productivity is explained by the matured technology used in the accumulated capital in urban areas, by the limited qualifications of human capital and by the transformation of industries to a more unqualified labor abundant structure. When this issue is investigated in Turkey, relatively limited increase in fixed capital investment for long years with respect to various similar countries, arise as another factor to explain the trap. In addition, the regional diversification in terms of development level in Turkey, in other words the fragmented structure of the national economy –observed as feeding relatively more productive and richer regions by the cheap labor force and raw materials of poor regions- causes the “trap” to turn into a vicious circle. In this study, impacts of particularly the regional diversification in human capital and relatively low fixed capital investment on middle income trap is analyzed by focusing on regional value added. In the analyses a panel data set at NUTS 2 level is used and the econometric analyses are carried out by geographically weighted regression. Hence, while the relative significance of regional diversification in human capital and fixed capital investment is derived relevant messages are created for policy makers at NUTS 2 level by basing on empirical evidence.

KEYWORDS Human capital; Productivity; Value added; Fixed capital investment; Middle income trap

JEL J24, O4