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People in Economics

Micro Maestro

Chris Wellisz profiles Brown's **Şebnem Kalemli-Özcan**, who mines business-level data to explain global capital flows

GROWING UP IN TÜRKİYE in the 1980s, Şebnem Kalemli-Özcan was exposed to some unusual dinner table conversations. Her father, a prominent surgeon, was serving as health minister. One evening, he recounted how politically connected domestic pharmaceutical companies, fearing competition, had blocked his effort to bring in a European vaccine maker as an investor. That company went to India instead.

Kalemli-Özcan, now a professor of economics at Brown University, tells the story to show how rent seeking—where businesses try to increase revenue by influencing public policy—can impede the flow of capital across borders. “I didn’t understand it then, but later when I was doing my PhD I thought, OK, if there are domestic frictions where some group is earning a rent, that group is going to object to reform,” she says.

She made the study of such frictions a foundation of her academic work. Kalemli-Özcan analyzes why, after decades of globalization, capital doesn’t always flow freely across international

borders in search of the highest returns and what this means for economic development and financial stability.

As arcane as that may sound to economics laymen, dislocations associated with globalization and resulting social unrest around the world lie at the heart of today’s upheavals in global trade policies. Kalemli-Özcan’s research is at the forefront of efforts to explain what went wrong and how to better understand the obstacles.

In theory, Kalemli-Özcan explains, investors from rich countries, where capital is abundant and returns are low, should seek opportunities in poor ones, where capital is scarce and returns may be higher. But in practice that’s not always the case. The frictions include political corruption, poor infrastructure, incomplete information about local conditions, and unreliable local partners.

Over the years, economists have built sophisticated theoretical models to explain these barriers, but the models don’t always work, because they are based on aggregate data on capital flows.

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By contrast, Kalemli-Özcan burrows deeply into corporate profit-and-loss statements, bank balance sheets, and financial transactions to uncover the frictions that others miss.

A fast talker with an impish smile, the 52-year-old economist seems to be everywhere—in YouTube videos, in seminars, on the pages of the *Financial Times*, and on the screens of broadcast news programs. Her curriculum vitae lists 49 published papers, spots on the editorial boards of seven academic journals, numerous fellowships, and stints at the International Monetary Fund and the World Bank. She has served on the advisory panels of the Bank for International Settlements and the Federal Reserve Bank of New York.

“She always stood out as having twice the energy of everybody else, professors and students,” says Bent Sorensen, a frequent collaborator who was one of her doctoral advisors at Brown. “Always full speed ahead.”

‘Look at the data’

In one paper, she and her coauthors built a database encompassing the entire universe of publicly traded nonfinancial companies in Argentina, Brazil, and Mexico over 15 years to pinpoint the hindrances to investment in the aftermath of a financial crisis. They found that a lack of liquidity among domestic banks, rather than insufficient collateral among businesses, was to blame.

In another, she used a decade of loan data from Turkish banks to show how the ebb and flow of global financial cycles—often triggered by changes in US monetary policy—are transmitted to credit markets in Türkiye.

“She’s really an empirical macroeconomist, and you know, there are too few of them,” says Sorensen, now at the University of Houston. “Sometimes the profession is about showing how smart you are and making clever models, but in my mind—and that’s where I really agree with Şebnem—it’s like, ‘No, we must go look at the data.’”

Kalemli-Özcan drew inspiration for her work at the intersection of policy and academia from childhood experiences, she says. After school, she some-

times visited her mother, a college math professor, and marveled at the mysterious equations on the blackboard. She recalls traveling with her father to Germany, where he discussed issues related to Turkish guest workers with Chancellor Helmut Kohl.

After earning a bachelor’s degree in economics at Middle East Technical University in Ankara, she enrolled at Brown, completing her PhD in 2000. She started her teaching career at the University of Houston and later moved to the University of Maryland, before returning to Brown, and has held visiting professorships at Türkiye’s Koç University and Bilkent University. She publishes frequent commentaries on Türkiye’s economy.

Her husband, Emre Özcan, is a civil and environmental engineer by training who is a vice president of a construction development group. The two, who share a love of skiing and mathematics, met as undergraduates in Ankara. He moved to Boston for graduate school, and three years later, she arrived in nearby Providence, Rhode Island. They married in Türkiye in 1997.

One of their two sons is an undergraduate at Brown majoring in mechanical engineering and computer science. The other has a biomedical engineering degree from Brown and is now a medical student at the University of Pennsylvania. The family ski vacation is an important annual ritual.

Kalemli-Özcan’s focus on microdata has helped unravel some economic mysteries. In recent years, economists have struggled to explain upstream flows of capital from fast-growing economies, such as those in East Asia, to stagnant ones. But after excluding public flows—say, China’s purchases of US government bonds—she shows that private capital invested in corporate securities or factories does flow to faster-growing economies, consistent with economic theory.

In some cases, even if capital flows to the right places, it may not be put to good use. In a 2017 paper, she and her coauthors delved into production and financial statistics for thousands of Spanish companies from 1999 to 2012. Their goal was to assess the impact of

investments the companies received from abroad following Spain’s entry into the European Union.

They surprisingly found that the inflows resulted in lower, not higher, productivity. The reason: Spanish banks tended to lend more to larger, wealthier companies because they appeared safer, even when smaller businesses might have used the money more productively.

“This money coming from foreign investors is wasted because it is not allocated in a way that is going to increase the growth of the country,” she says.

Kalemli-Özcan’s work has important policy implications for countries seeking to improve productivity, accelerate growth, and better the lives of citizens. As the Spanish example suggests, inefficient deployment of capital hinders productivity and growth. Allocated correctly, new capital can make businesses more productive through the application of new technology and from greater economies of scale, generating growth and wealth, Kalemli-Özcan says.

Identifying frictions points to solutions. The economist’s research suggests that governments seeking to attract foreign investment should adopt policies to strengthen the protection of property rights, reduce corruption, and improve bureaucratic quality. In a paper on how changes in US monetary policy affect developing economies, she writes that a focus on central bank independence can attract stable, longer-term flows of capital.

A new path

Of course, countries that prematurely open their capital markets sometimes plunge into a financial crisis. That happened in Türkiye in 2000, just as she was finishing her doctorate. Political turbulence triggered an exodus of short-term foreign capital—“hot” money—which forced the country to abandon its fixed currency exchange rate. The lira quickly plunged by as much as 40 percent, inflating the liabilities of domestic banks burdened with excessive foreign borrowing. In 2001, GDP contracted by more than 5 percent, and inflation surged. More than 1 million workers lost their jobs.

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The crisis in Türkiye was the fifth involving a developing economy since 1995. From her perch in Providence, Kalemli-Özcan says she remembers thinking, “OK, I should do international economics. All these fixed-exchange-rate countries fell like dominoes, and Türkiye is literally the last one.”

Until then, she had focused on growth economics, studying what factors boost a country’s productive capacity, such as advances in technology or increased longevity. Her doctoral thesis examined how declining mortality rates affect fertility and parents’ investment in their children’s education. After Türkiye’s meltdown, she changed course.

One chapter of her thesis formed the basis for a heavily cited 2003 article in the *American Economic Review* cowritten with Sorensen and the late Israeli economist Oved Yosha. For the first time, they used data to confirm the long-accepted theoretical proposition that financial integration allows regions to share risk, making them more willing to specialize in particular industries. The paper has been widely assigned in graduate-level economics courses.

While she has continued to work on issues related to growth, such as the impact of AIDS on fertility in Africa, she has increasingly focused on international macroeconomics, ranging widely across topics. In a paper published in the wake of COVID-19 and in 2021 testimony before Congress, she argued that rich countries would reap benefits for themselves and the rest of the world by investing in a program of global vaccinations. A 2025 paper was among the first to show that prospective changes in US tariff policies were likely to generate higher inflation and produc-

tion losses in the US and among major trading partners.

“Şebnem has become a scholar who speaks to all the big issues of the day,” says one of her collaborators, Gita Gopinath, a Harvard economics professor who is a former IMF chief economist. “And she is fierce in attacking those questions with the best data that can be brought to bear.”

Painstaking work

Kalemli-Özcan’s high energy level has been the key to success in the painstaking work of obtaining, organizing, and making sense of masses of fine-grained data. She describes intense negotiations with a private data provider to gain access to information on the sales, employment, debt, and assets of millions of public and private companies across Europe.

“At one point, I was calling them almost every day for six months,” in addition to in-person meetings in cities from Boston to Brussels, she says. Compiling the data was another daunting task. “We did not have AI in those days, so to be able to crunch numbers, we needed to put the millions of text files into usable form in statistical packages to be used in econometric analysis.”

The result was a guide for scholars explaining how to work with enterprise-level statistics. Sorensen marvels at her persistence. “These things only happen with somebody with Şebnem’s enthusiasm and entrepreneurial skills,” he says.

At the IMF, where Kalemli-Özcan served as a senior policy advisor in 2019–20, she helped shape a new policy framework that countries can use to select the best mix of monetary policy, exchange

rates, and other tools for managing large and volatile capital flows. Multiple financial crises showed that flexible exchange rates could prove risky for developing economies with large foreign-currency debt. Under the new framework, the IMF now counsels countries whose banks tend to borrow excessively in dollars to consider limits on capital inflows.

“With the microdata, we are now learning that as these countries come out of a crisis, it might be a good idea for a certain time to protect them from outside investors,” she says.

Globalization 2.0

At Brown, she launched the Global Linkages Lab, where two dozen researchers in the US, Chile, Spain, and Türkiye are assembling multiple terabytes of data to map the complex web of transactions that link businesses’ supply chains and financial portfolios across 10 sectors and 15 countries. The goal is to expand the data to 45 sectors and 65 countries over next three years.

The researchers are also interviewing corporate executives in advanced and emerging markets to understand how they are adjusting investment and trade decisions in a shifting geopolitical landscape marked by higher tariffs, more extensive application of industrial policy, and efforts to protect strategic assets. How will higher tariffs shape flows of trade and investment? How will companies tweak their supply chains in response to new national security concerns?

Despite the backlash over the loss of manufacturing jobs in developed economies, she argues, globalization brought tremendous benefits, lifting more than a billion people out of poverty in developing economies. She is counting on the Global Linkages Lab to explain what globalization 2.0 is likely to bring.

“Is it going to benefit only certain companies, people of certain countries, or is it still going to have some benefit in terms of global growth, global value?” she asks. “We are going to use microdata together with novel global network models to understand that.” **F&D**

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