Towards a New Industrial Policy Framework for Turkey?

Esen Çağlar

İstanbul, 27 January 2014
TEPAV’s journey in Industrial Policy

- **2005**: Investment Climate Assessment, with the World Bank
- **2006**: 9th Development Plan, Industrial Policy Ad-Hoc Commission, with State Planning Organization
  - 2007-2008: Secretariat of DOIK, Competitiveness Council
- **2008-2009**: Industrial Strategy Document, with Ministry of Industry
- **2010-2012**: Various sectoral and regional studies
- **2012-2013**: 10th Development Plan, Transformation of the Manufacturing Industry Ad-Hoc Commission with Ministry of Development
Outline

- Major findings on Turkey’s transformation
  - Why can’t our manufacturing get sophisticated enough?
- How can we trigger and speed up transformation in Turkey’s manufacturing industry?
  - Framework proposal from the Ad-Hoc Commission report
- Questions & takeaways (pictures..)
Key dynamic: rapid urbanization

(= main source of economic growth)

Urban population as a percentage of the total population in Turkey and EU countries, (%), 1960-2012

Source: World Bank, World Development Indicators
Convergence to the EU income: we weren’t expecting this fast

GDP per capita of Turkey as percentage of EU-27 GDP per capita, 1980-2012, PPP

Source: Worldbank, WDI
However, it could have been much faster
Rapid trade integration after 2001 crisis

Turkey's imports to and exports from the World
1990-2012, USD bn

Source: UN COMTRADE, TEPAV Calculations
Presence in world markets: out of sight, out of mind?

Share of Turkey’s exports the imports of main regions
2000-2005-2010, %

Source: UN COMTRADE, TEPAV Calculations
Sophistication of Turkey’s exports...

Technological breakdown of Turkey’s total exports, 2000-2005-2012, %

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2005</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>High Tech</td>
<td>8%</td>
<td>6%</td>
<td>5%</td>
</tr>
<tr>
<td>Medium Tech</td>
<td>22%</td>
<td>32%</td>
<td>33%</td>
</tr>
<tr>
<td>Low Tech</td>
<td>49%</td>
<td>40%</td>
<td>36%</td>
</tr>
<tr>
<td>Resource Based</td>
<td>13%</td>
<td>14%</td>
<td>18%</td>
</tr>
<tr>
<td>Primary Products</td>
<td>8%</td>
<td>8%</td>
<td>8%</td>
</tr>
</tbody>
</table>

Source: UN COMTRADE, TEPAV Calculations, LALL(2000)
Making a sophisticated jump? How?

Export sophistication index (EXPY) for the top 20 largest economies, 2010
Normalized values, Switzerland= 100, Nijer=0

Source: BACI database, WDI, TEPAV calculations
2023 export target is USD 500 billion. This implies doubling world market share.

How?

1. Increasing competitiveness
   (selling more of the same goods to the same markets)

2. Entering new markets
   (penetrating into high growth markets?)

3. Producing new products
   (penetrating into high growth products?)
Turkey cannot transform its product basket

In the last decade, Turkey’s world market share went up from 0.42% to 0.92%

Decomposition of the change in world market share, geographic vs. sectoral adaptation, 2000-2010, %

Source: BACI dataset, Memedovic ve Iapadre (2009), TEPAV calculations
How can we transform manufacturing industry in Turkey?

- Prerequisite for being transformative: selective discrimination

- But how?
  - «Smart» choices
  - «Transparent» discrimination
  - «Effective» implementation capability
  - «New» targets and themes
  - «Orchestration»
How does Turkey perform in Global Competitiveness Index?
(Turkey’s overall rank is 43rd in 2012)

<table>
<thead>
<tr>
<th>Turkey’s ranking in GCI sub-indices</th>
<th>2006</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Labor market</td>
<td>114</td>
<td>124</td>
</tr>
<tr>
<td>2. Tax system</td>
<td>95</td>
<td>117</td>
</tr>
<tr>
<td>3. Judiciary, rule of law</td>
<td>56</td>
<td>83</td>
</tr>
<tr>
<td>4. Education</td>
<td>58</td>
<td>74</td>
</tr>
<tr>
<td>5. Infrastructure</td>
<td>61</td>
<td>51</td>
</tr>
<tr>
<td>6. Macro framework</td>
<td>101</td>
<td>55</td>
</tr>
</tbody>
</table>
Getting the basics right?
Three possible binding constraints

Education

- One party government, but 5 ministers in 10 years? Serious systemic problems, need focus on teachers
  - Quantity (6.5 years) + quality (PISA scores)

Institutional infrastructure

- Judicial and tax reform, not much progress until now
- No evaluation, limited accountability (e.g. for highly generous R&D incentives)

Connectivity

- Anatolia not in Customs Union yet. No scheduled train services to EU; highway connecting East-West, North-South.
ÖİK Toplantı Tutanakları (3 toplantı), sarf edilen 160 bin sözcükten öne çıkanlar:
Towards a New Industrial Policy Framework for Turkey?

New Themes of Industrial Policy

1. Urban Renewal and Smart Systems
2. Green Economy and Green Industry
3. SME Internationalization
4. Inclusive Industry for Women

Transformation in industry sub-sectors

Horizontal Industrial Policy Areas

Industrial Policy Tools

Regional Dimension of Manufacturing Transformation
**New Themes of Industrial Policy**

1. Urban Renewal and Smart Systems
2. Green Economy and Green Industry
3. SME internationalization
4. Inclusive industry for women

**Industrial Policy Tools**

- Public Procurement
- State Aids and incentives
- Tax system
- Regulations
- Dialogue and cooperation mechanisms
- International agreements

**Horizontal Industrial Policy Areas**

**Regional Dimension of Manufacturing Transformation**

**Transformation in industry sub-sectors**
Towards a New Industrial Policy Framework for Turkey?

**New Themes of Industrial Policy**

1. Urban Renewal and Smart Systems
2. Green Economy and Green Industry
3. SME internationalization
4. Inclusive industry for women

**Industrial Policy Tools**

- Public Procurement
- State Aids and incentives
- Tax system
- Regulations
- Dialogue and cooperation mechanisms
- International agreements

**Horizontal Industrial Policy Areas**

- Skills
- Energy
- Logistics
- Access to land
- Access to finance
- Research & Development
- Design
- Intellectual Property Rights
- Measurement, Standards, Test & Quality

**Transformation in industry sub-sectors**

- Regional Dimension of Manufacturing Transformation
Towards a New Industrial Policy Framework for Turkey?

New Themes of Industrial Policy

1. Urban Renewal and Smart Systems
2. Green Economy and Green Industry
3. SME internationalization
4. Inclusive industry for women

Industrial Policy Tools
- Public Procurement
- State Aids and incentives
- Tax system
- Regulations
- Dialogue and cooperation mechanisms
- International agreements

Transformation in industry sub-sectors
- Design industries
- Machinery and System Industries
- Primary and intermediate Industries
- Life Sciences Industries

Horizontal Industrial Policy Areas
- Skills
- Energy
- Logistics
- Access to land
- Access to finance
- Research & Development
- Design
- Intellectual Property Rights
- Measurement, Standards, Test & Quality

Regional Dimension of Manufacturing Transformation
Towards a New Industrial Policy Framework for Turkey?

**New Themes of Industrial Policy**

1. Urban Renewal and Smart Systems
2. Green Economy and Green Industry
3. SME internationalization
4. Inclusive industry for women

**Industrial Policy Tools**

- Public Procurement
- State Aids and incentives
- Tax system
- Regulations
- Dialogue and cooperation mechanisms
- International agreements

**Horizontal Industrial Policy Areas**

- Skills
- Energy
- Logistics
- Access to land
- Access to finance
- Research & Development
- Design
- Intellectual Property Rights
- Measurement, Standards, Test & Quality

**Transformation in industry sub-sectors**

- Design industries
- Machinery and System Industries
- Primary and intermediate Industries
- Life Sciences Industries

**Regional Dimension of Manufacturing Transformation**
Towards a New Industrial Policy Framework for Turkey?

**New Themes of Industrial Policy**
- Urban Renewal and Smart Systems
- Green Economy and Green Industry
- SME internationalization
- Inclusive industry for women

**Industrial Policy Tools**
- Public Procurement
- State Aids and incentives
- Tax system
- Regulations
- Dialogue and cooperation mechanisms
- International agreements

**Horizontal Industrial Policy Areas**
- Skills
- Energy
- Logistics
- Access to land
- Access to finance
- Research & Development
- Design
- Intellectual Property Rights
- Measurement, Standards, Test & Quality

**Transformation in industry sub-sectors**
- Design industries
- Machinery and System Industries
- Primary and intermediate industries
- Life Sciences Industries

**Regional Dimension of Manufacturing Transformation**

Map of Turkey with regions highlighted.
Playing a different kind of music?
Or?
It should be possible...