

# tepaV

Türkiye Ekonomi Politikaları Araştırma Vakfı

## Why Turkey needs FDI?

**Güven SAK**  
**25 April 2016**

# Framework

- Turkey has become a mid-tech industrial country
  - 1980 / 1996 / 2002 / 2005
  - EU engagement was elemental in Turkish transformation
- Turkey needs to make the next jump
  - New growth strategy, tech transfer, high-tech exports
  - A program is shaping up
  - Turkey needs FDI
- New EU engagement is timely
  - EU engagement means administrative reform for Turkey
  - Visa liberalization dialogue as a positive agenda item
    - Visa liberalization is about more than visas

# Looking at the big picture...

1992



# ..no need to feel anxious

2012



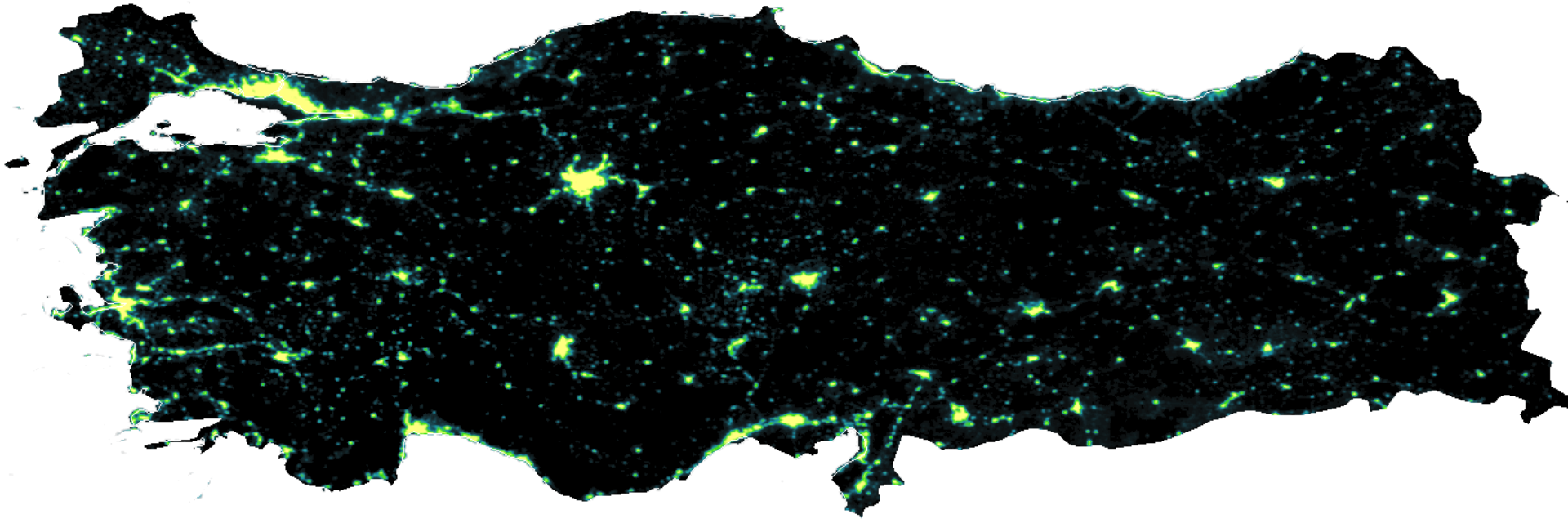
# Especially when you zoom in..

1992



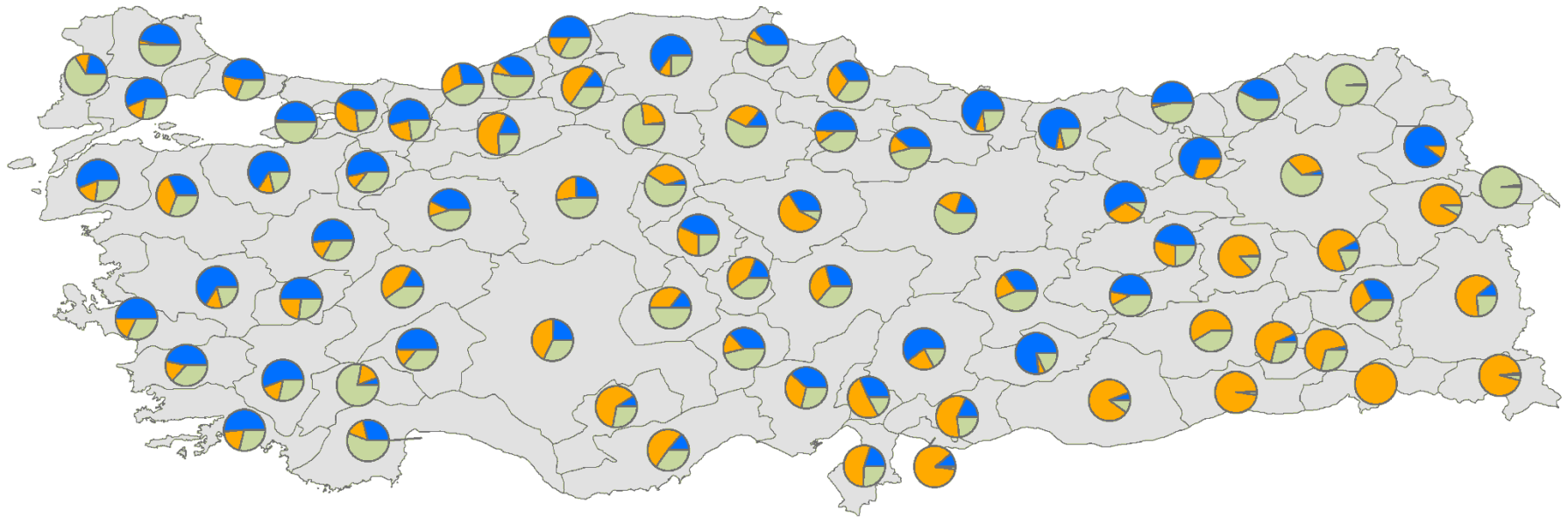
# ..looks even more inclusive

2013



# Western Turkey is in the Customs Union

Export destinations of Turkey's provinces, %, 2014



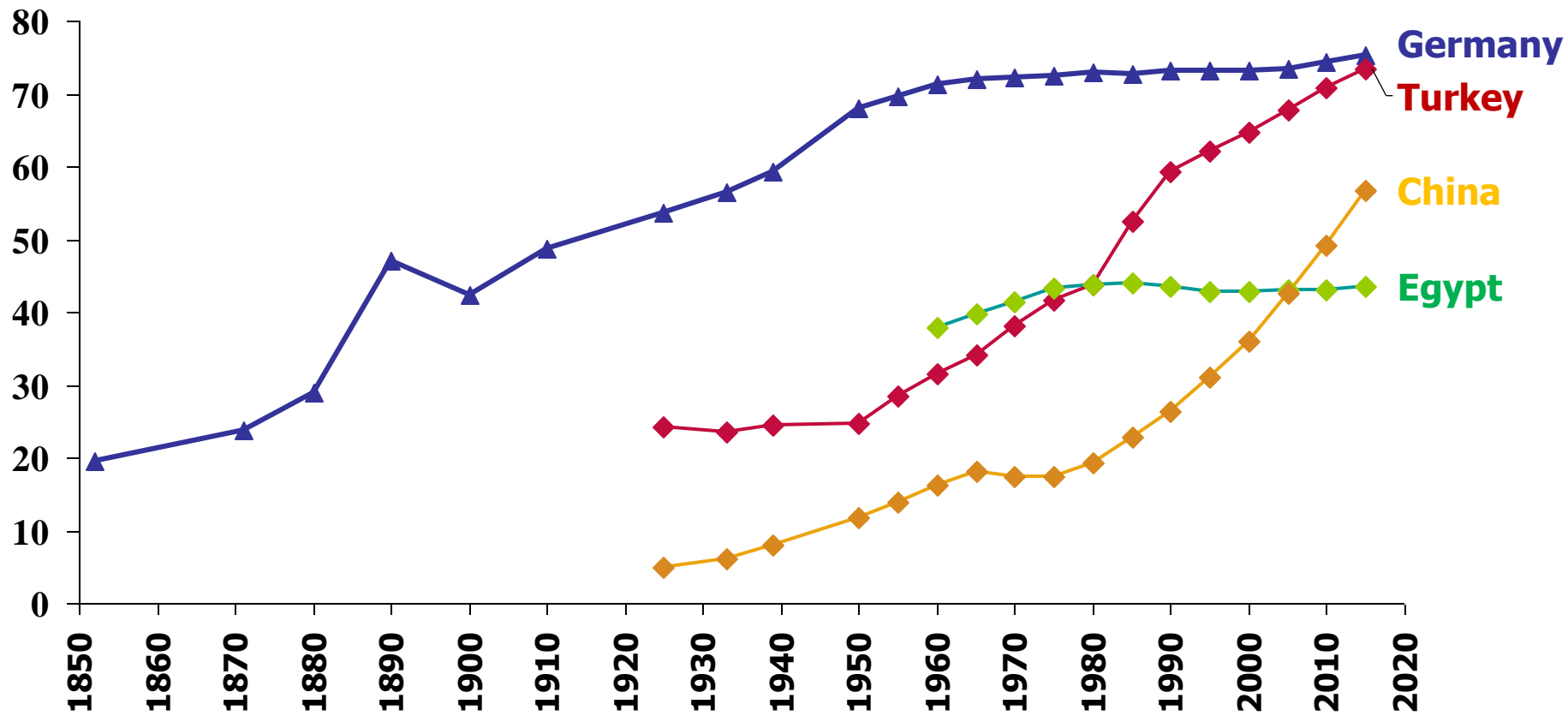
EU-28

MENA

Other

# Now we need a new growth strategy

Urbanization rates of Turkey, Germany, China, and Egypt, %

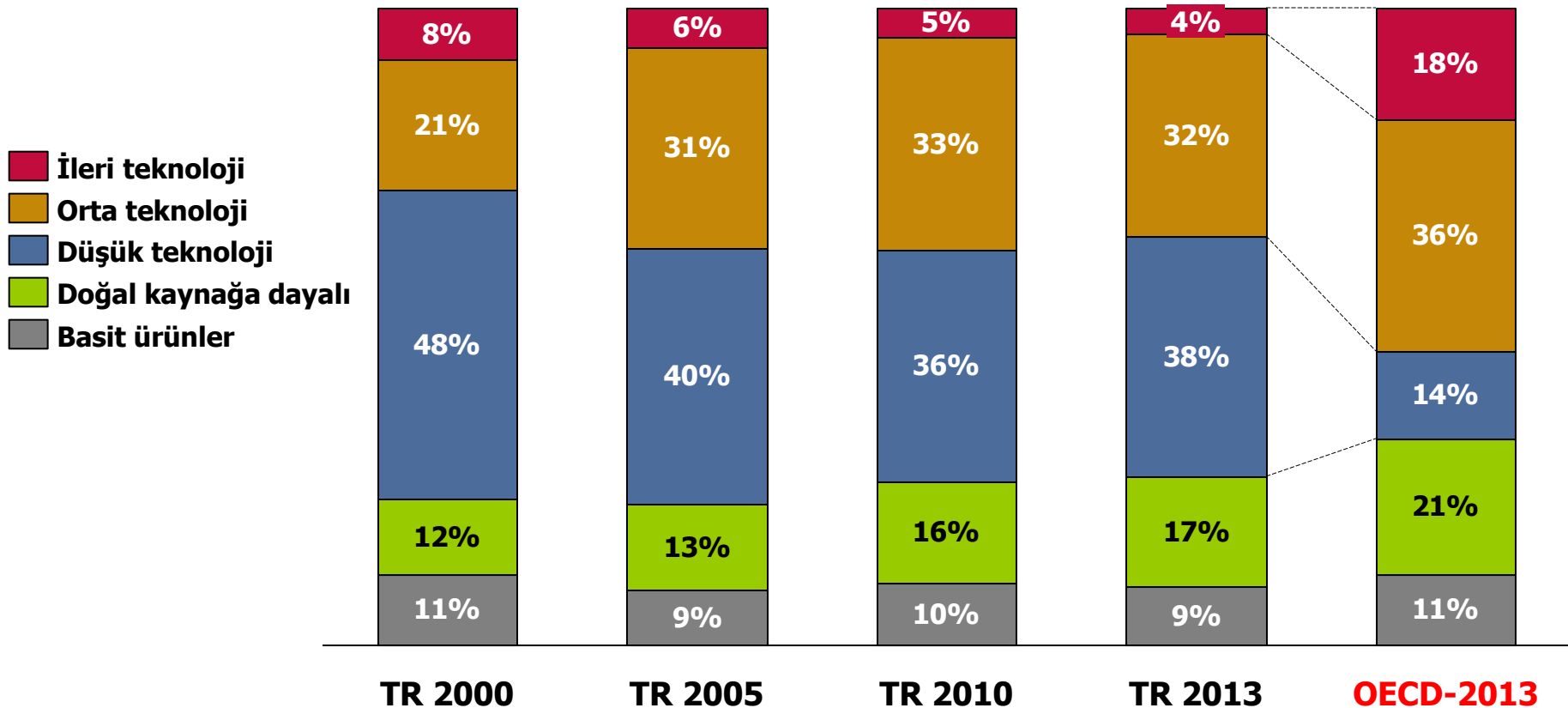




# Objective - 1:

## Increasing high-tech exports

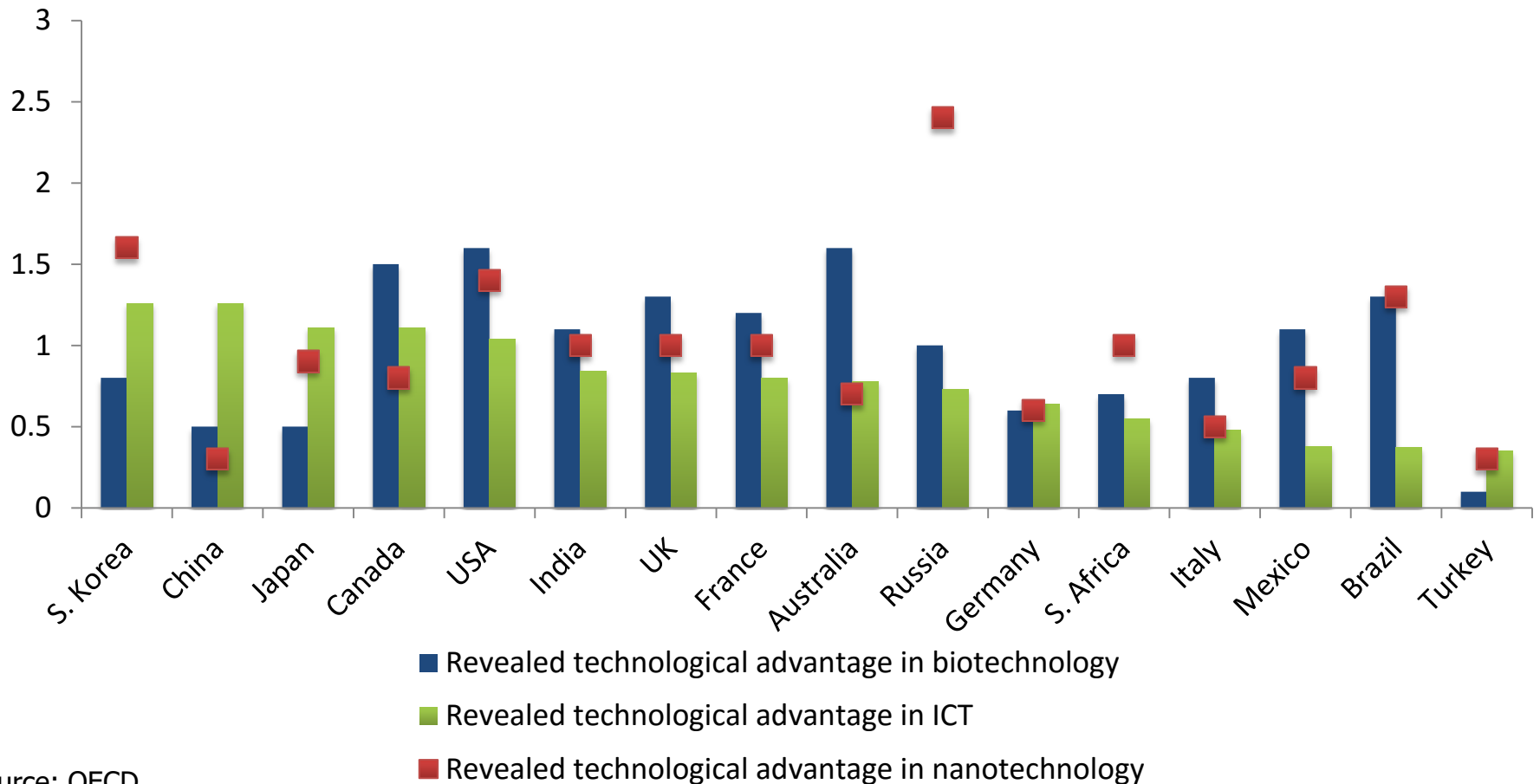
**OECD average for high tech is four times higher than Turkey**



# Objective - 2:

## Enabling transfer and diffusion of new technology platforms

Technological advantage in biotechnology, nanotechnology and ICT, 2013



Source: OECD

# How to assess transformation programs?

1. Productivity Growth in Production
2. Reducing Dependence on Imports
3. Increasing Domestic Savings at the National Level and Preventing Wastefulness
4. Istanbul International Financial Center
5. Rationalization of Public Expenditures
6. Raising the Quality of Public Revenue
7. Improving the Business and Investment Climate
8. Improving the Effectiveness of the Labor Market
9. Reducing the Informal Economy
10. Development of the Statistical Information Infrastructure
11. Commercialization in Priority Technology Areas
12. Technology Development and Local Production through Better Public Procurement
13. Energy Generation Based on Local Resources
14. Energy Efficiency Improvement
15. Effective Use of Water in Agriculture
16. Healthcare Related Industries Structural Transformation Program
17. Improvement in Health Tourism
18. Transition from Transportation to Logistics
19. Development of Basic and Occupational Skills
20. Attracting Qualified Human Resources from Abroad
21. Healthy Life and Mobility
22. Preserving the Family and Dynamic Population Structure
23. Institutional Capacity Development at the Local Level
24. Urban Redevelopment Program to Increase Competitiveness and Social Cohesion
25. Improving International Cooperation Infrastructure for Development

# Vision?

## Vision

**Sustainable Growth**

**Sustainable  
Development and  
Green Industry**

**High Tech Production  
and Export**

# Reform areas? Accelerator tools/projects?

## Horizontal Areas

**Macroeconomics**  
(1, 2, 3, 6)

**Education/  
Human Capital**  
(8, 19, 20)

**Law**  
(9)

**Efficiency of  
Administration**  
(5, 10, 23)

**Foreign  
Policy/EU  
process** (25)

**Urbanization**  
(24)

## Concrete Tools/Projects

**Public  
procurement  
policy** (12)

**Ecosystem  
pioneers &  
Funds**

**Public –  
Private sector  
agreements**  
(16)

**Technology  
specific  
clustering**  
(11)

**Policy/  
Strategy  
Oversee Unit**

**Redirecting  
funds  
according to  
goal & focus**

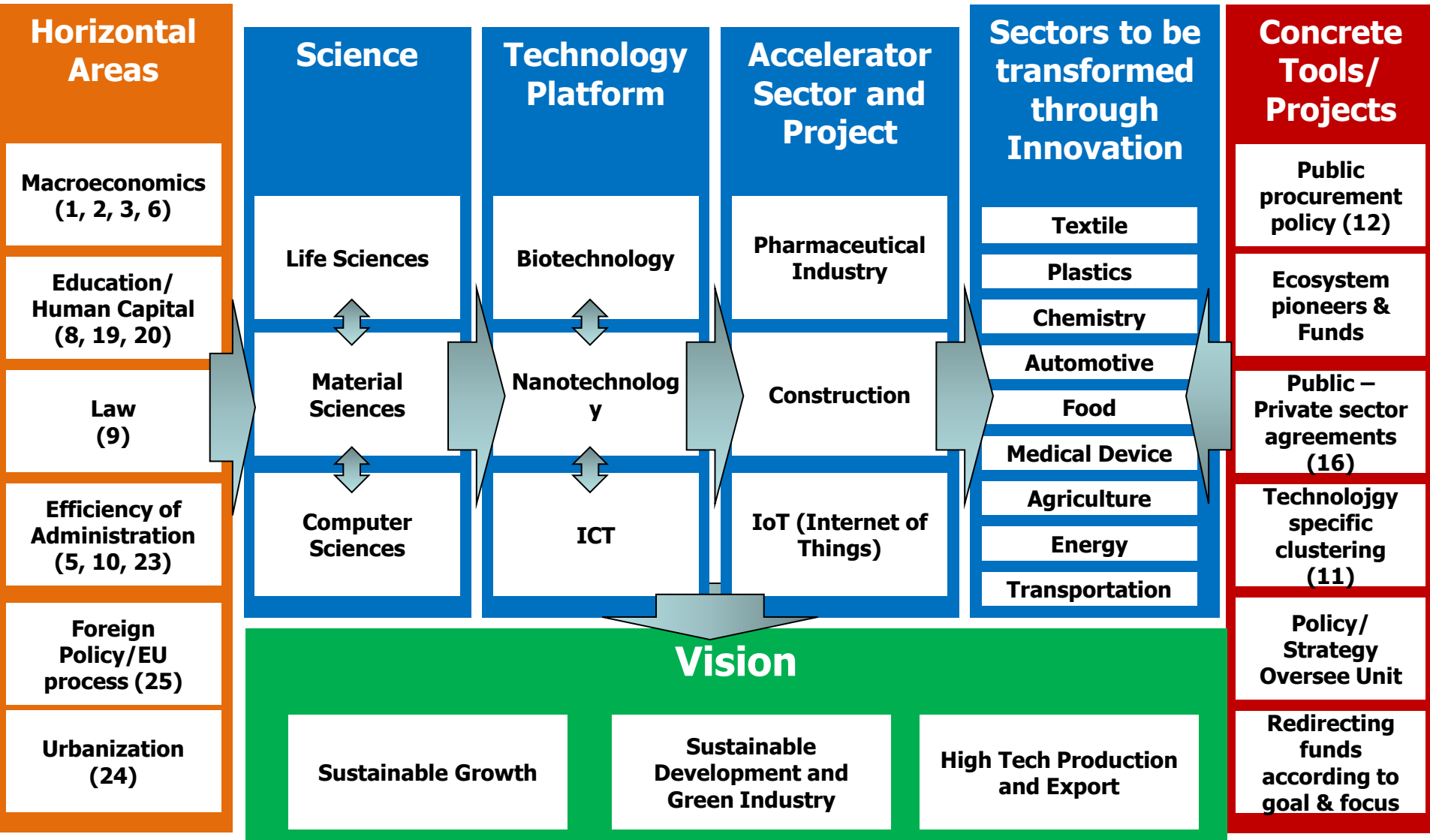
## Vision

**Sustainable Growth**

**Sustainable  
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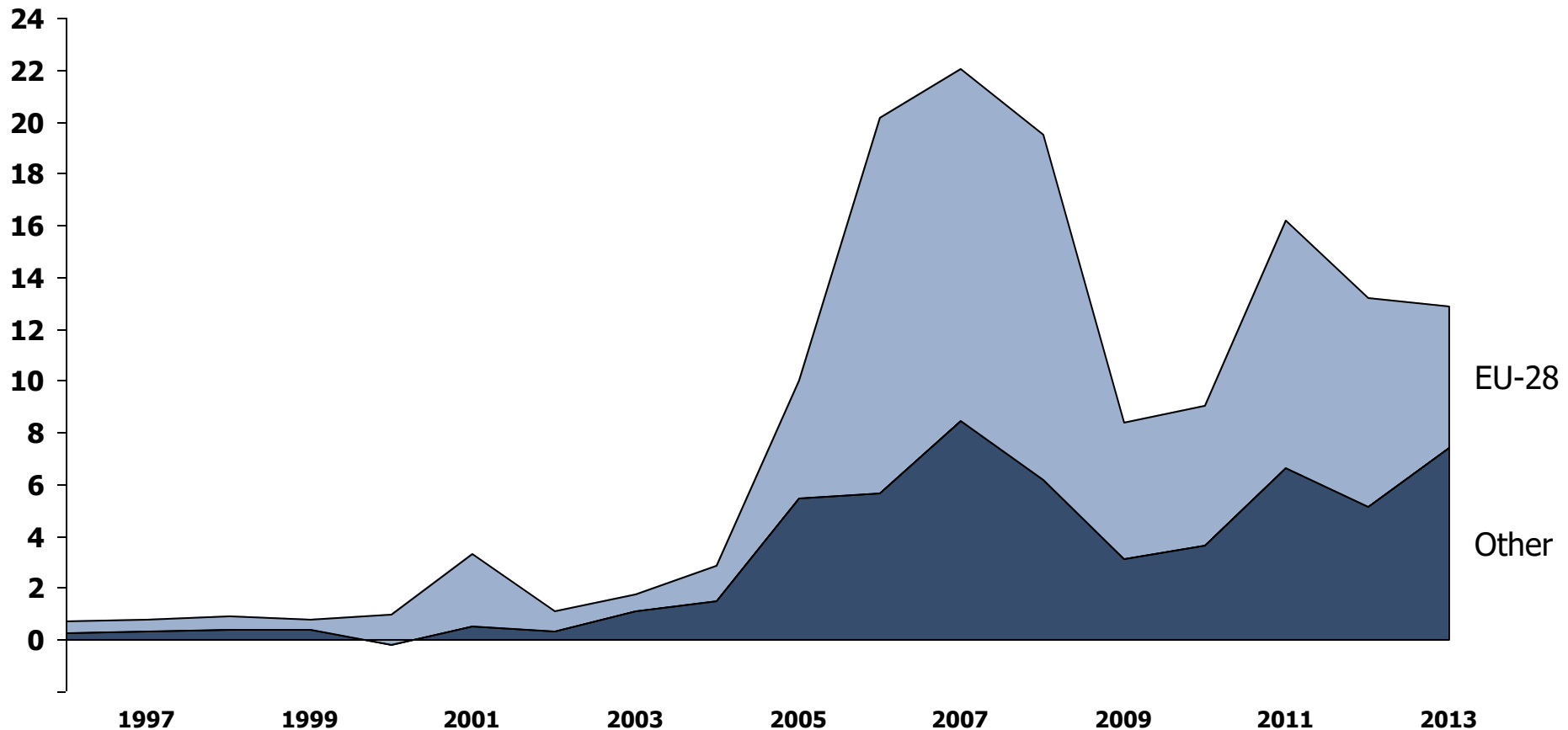
**High Tech Production  
and Export**

# Focus? Localisation? The role of FDI?



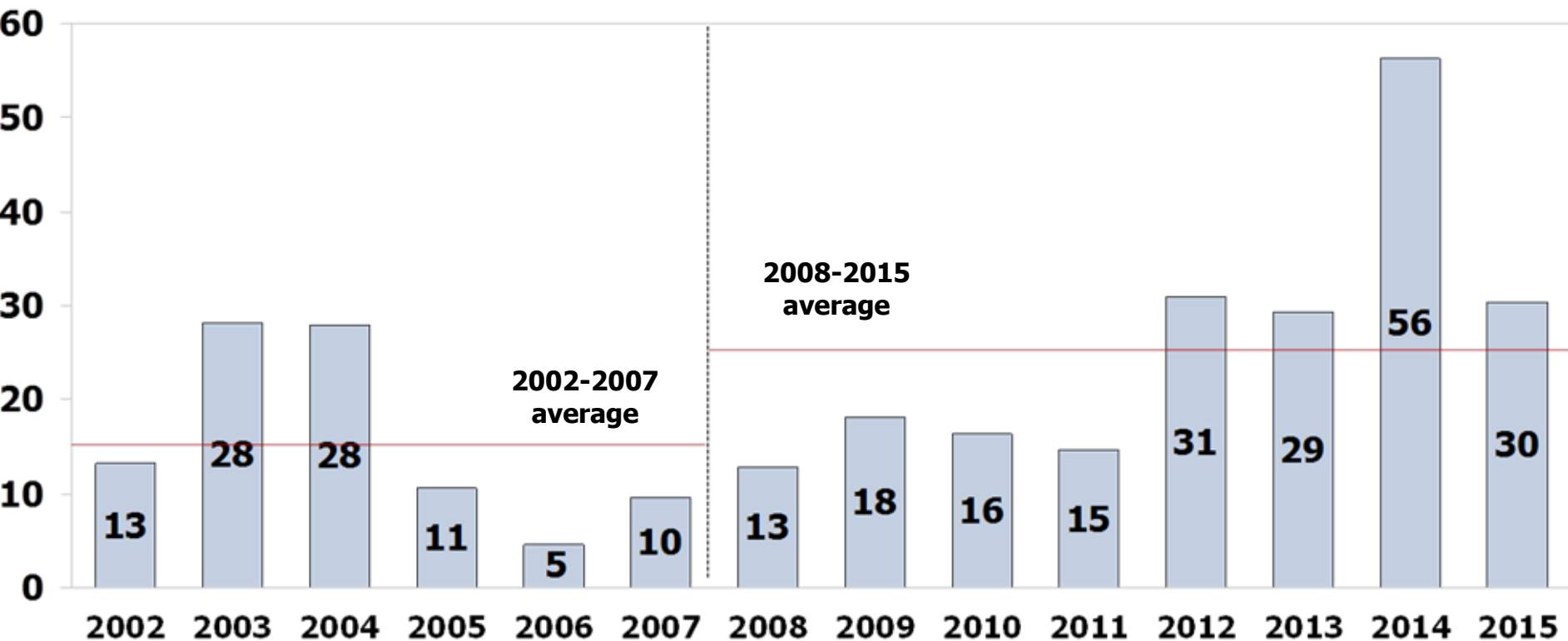
# EU engagement was translated into higher FDI inflow

FDI inflows to Turkey, by source, 1996-2013, billion USD



# We need to sustain high FDI inflow while slowing down the ODI

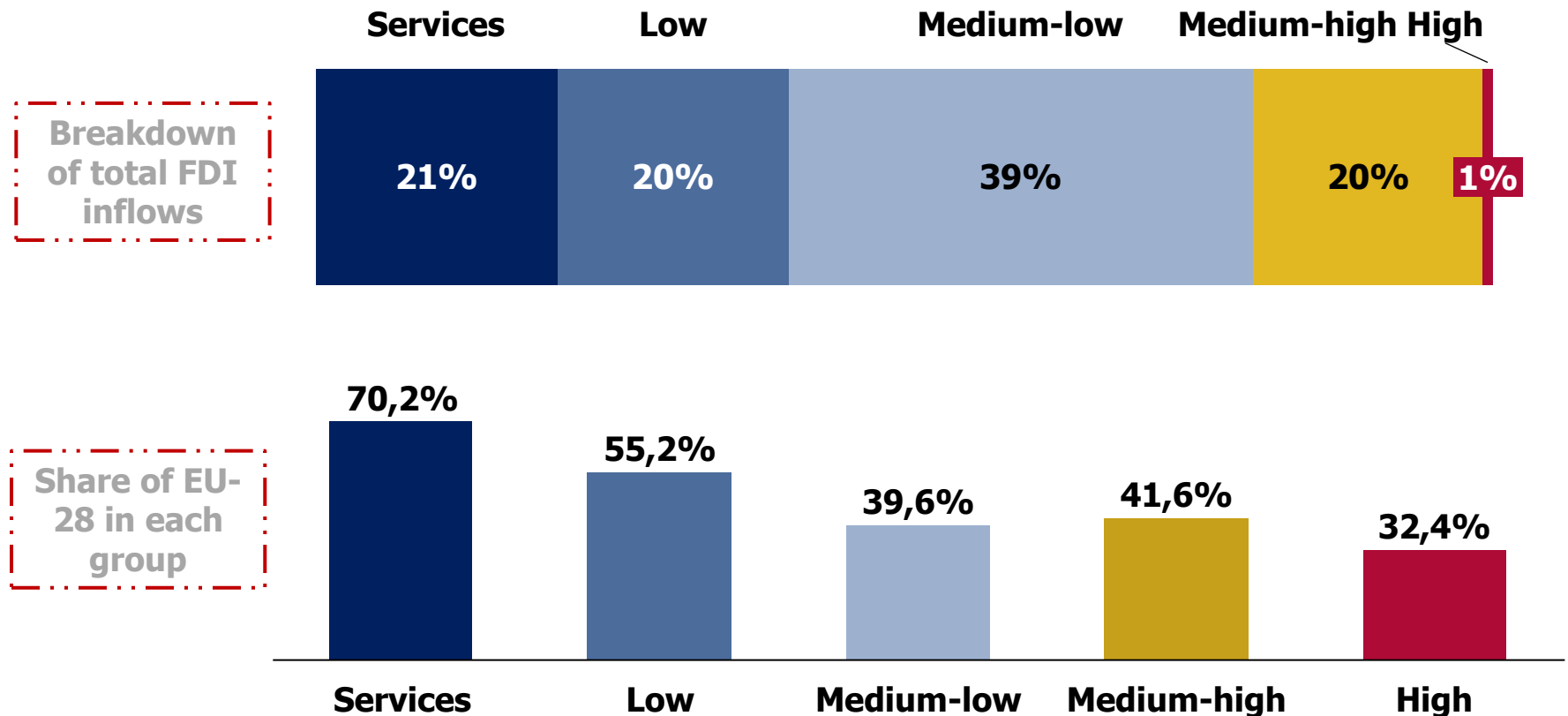
Turkey's ODI as a share of FDI, %  
(2002-2013)





# And improve the technology content of FDI

Technological classification of Turkey's FDI inflow, cumulative 2003-2014



Source: FdiMarkets, TEPAV calculations

\* Technology classification is adapted from Eurostat technology classification in line with OECD classification

# FDI as a tech transfer tool

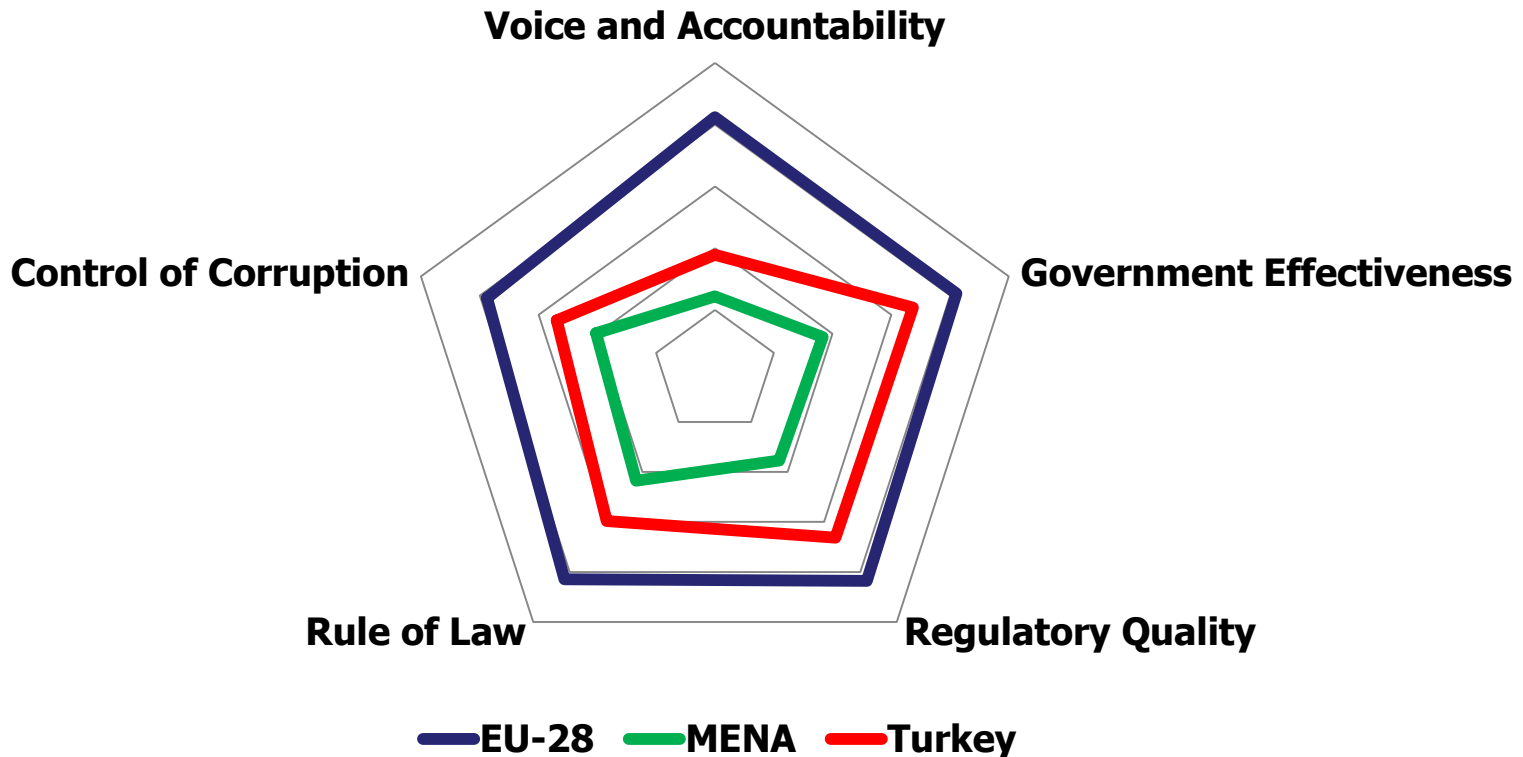
- Trade no longer follows the flag, trade now follows the FDI
  - From goods crossing borders to factories crossing borders
  - FDI is one of the most important tools for technology transfer through closing the knowledge gaps
- FDI requires an enabling ecosystem
  - Global Innovation Index has a story to tell
- Technology transfer requires new partnership model with the government
  - Partnerships important as long as there are positive domestic spillovers

# How to create an enabling ecosystem?

Country	Global Innovation Index 2015 (out of 141)						World Governance Index 2014 (out of 215)					
	Institutions	Human capital & research	Infrastructure	Market sophistication	Business sophistication	Knowledge & technology outputs	Voice and Accountability	Political Stability No Violence	Government Effectiveness	Regulatory Quality	Rule of Law	Control of Corruption
Turkey	84	50	63	58	117	60	122	174	62	66	81	89
UK	14	7	6	3	13	8	17	75	16	7	13	16
Korea	33	2	8	16	30	33	59	88	29	33	38	57
Canada	6	22	11	4	18	16	10	17	11	6	12	14
Australia	11	9	4	9	23	32	14	24	18	5	9	11
France	21	12	12	25	19	5	23	78	24	36	25	26
Germany	20	10	18	22	20	55	9	39	12	13	15	12
Italy	38	33	17	39	39	101	46	68	63	54	67	86
Japan	17	13	5	12	16	121	40	30	7	32	23	15
Mexico	66	52	69	69	56	92	102	156	75	65	121	144
USA	16	14	14	1	9	4	39	62	22	25	22	23
Argentina	111	44	74	127	61	75	80	98	107	173	162	130
Brazil	85	63	67	87	37	3	76	106	104	97	86	107
China	91	31	32	59	31	118	188	138	64	108	111	103
India	104	103	87	72	116	6	75	171	108	130	88	118
Indonesia	130	87	85	86	124	20	91	135	88	100	113	128
Russia	80	26	65	94	44	33	158	161	95	126	145	158
Saudi Arabia	68	39	34	55	64	74	187	197	198	190	197	197
South Africa	43	75	89	23	73	58	60	110	66	71	72	88

# Turkey needs to decide where it stands

World Governance Indicator scores of EU-28, MENA and Turkey (2014)

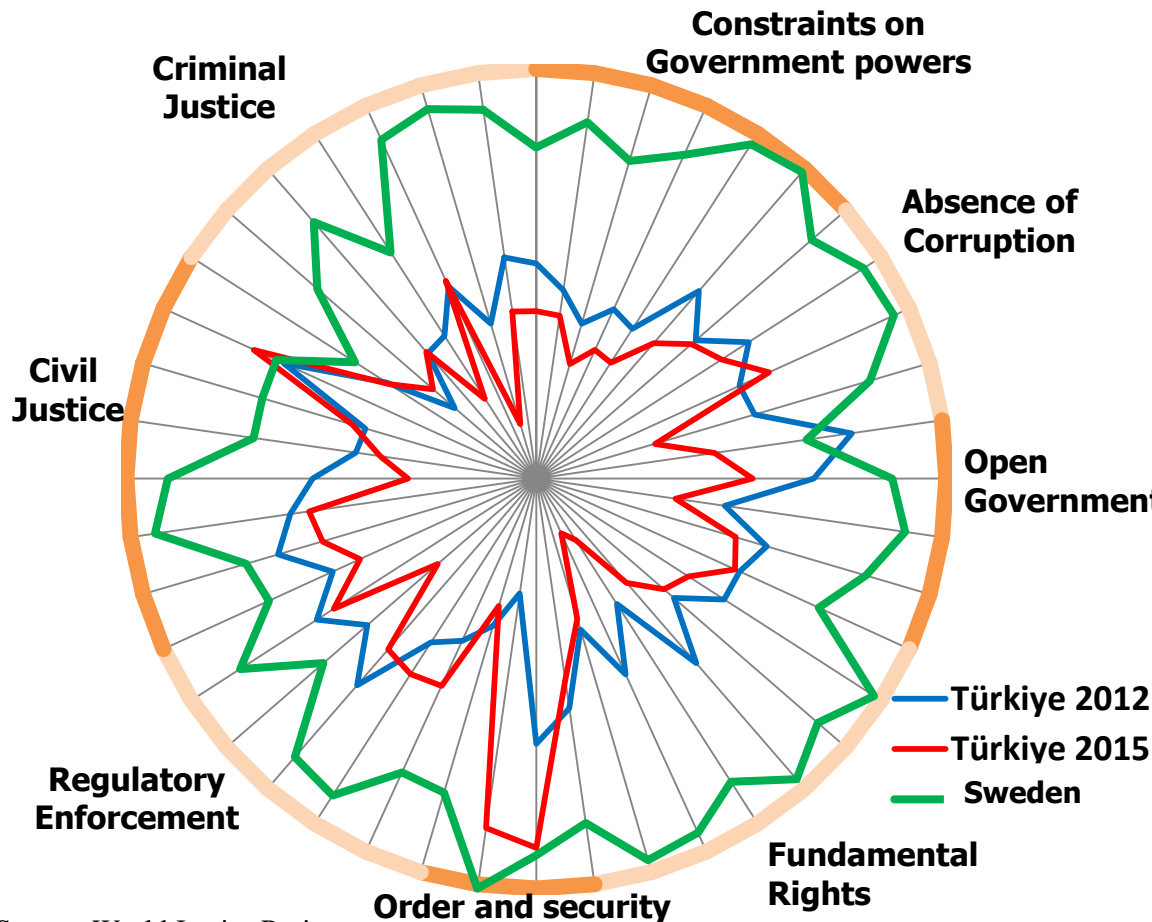


Source: World Governance Indicators, TEPAV calculations (unweighted average)

\* MENA classification in line with the WB lending group; consists of Egypt, Jordan, Syria, Morocco and Tunisia

# High-tech FDI needs more stability

## Turkey's Rule of Law Index indicators, 2012 & 2015



	Ranking (2015)
Constrains on Government Powers	<b>95/102</b>
Absence of Corruption	49/102
Open Government	82/102
Fundamental Rights	<b>96/102</b>
Order and Security	68/102
Regulatory Enforcement	46/102
Civil Justice	63/102
Criminal Justice	76/102

# Any EU engagement is administrative reform for Turkey

- Visa Liberalization Dialogue is a new starting point
- VLD is more than visas
  - Protection of personal data
  - Fight against corruption and organized crime
  - Capacity development for national agencies
  - Inter-agency cooperation in law enforcement
  - Border security and migration management
- October 2014: **27/72**  
March 2016: **12/72**

# Conclusions

- There is the need for a new growth model
  - Turkey cannot reach \$25k per capita by doing what it did to reach \$10k per capita
  - It needs technology transfers through FDI
- EU agenda is important for creating a conducive environment for FDI
  - Turkey transformed itself from agrarian to mid-tech industrial country through EU engagement
  - For the next jump Turkey still needs the EU
- VLD is a good starting point