



türkiye ekonomi politikaları araştırma vakfı

# Setting the Priorities Right for Turkish Economy: Time for Second Generation Reforms

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# Framework

- 2001-2007: We have jumpstarted the economy
  - ➔ Successful completion of first generation reforms
- After 2007: We know our objective
  - ➔ Sustaining economic growth
- Task: Second generation reforms
  - ➔ Completely different reform process
  - ➔ Very high coordination need
- Global turbulence could be a leitmotif
  - ➔ Is there a storyline for TR?

# Economic Policy Research Foundation of Turkey (TEPAV)

- Established in 2004, with the support of the Union of Chambers and Commodity Exchanges of Turkey (TOBB)
- Independent, non-partisan think tank in Ankara
- Focuses on economic policy, competitiveness, governance and stability.

[www.tepav.org.tr](http://www.tepav.org.tr)

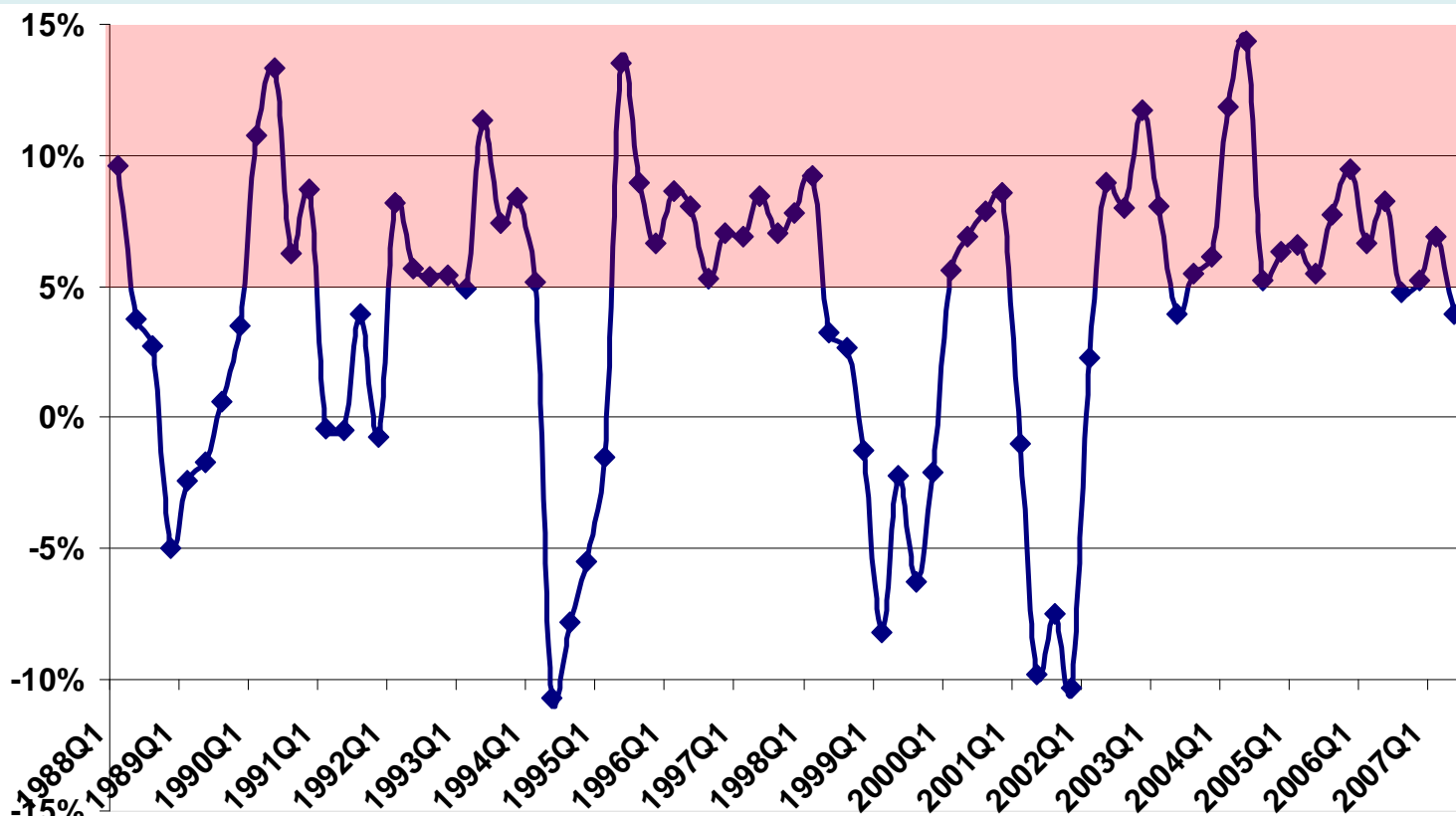
# Where are we now?

- Successful completion of first generation reforms
  - ➔ Started in 1983: Stop-over in 1990s
  - ➔ Restarted in 2001:
    - Jumpstarted the economy after 2001
    - Macroeconomic stability, global integration, productivity gains, rapid growth
  - ➔ Stalled in 2006
- Election results and Turkey's transformation
  - ➔ A sign of support for globalization, EU membership and reforms?
  - ➔ Transformation process has asymmetric effects

# Turkey's recent growth performance

- Rising productivity has been the major cause of growth
  - Average annual growth rate of productivity has been 7,5% between 2002 and 2006
- Sustaining productivity growth will be the new objective

**Real GDP growth rate y-o-y percentage change (1988-2007)**

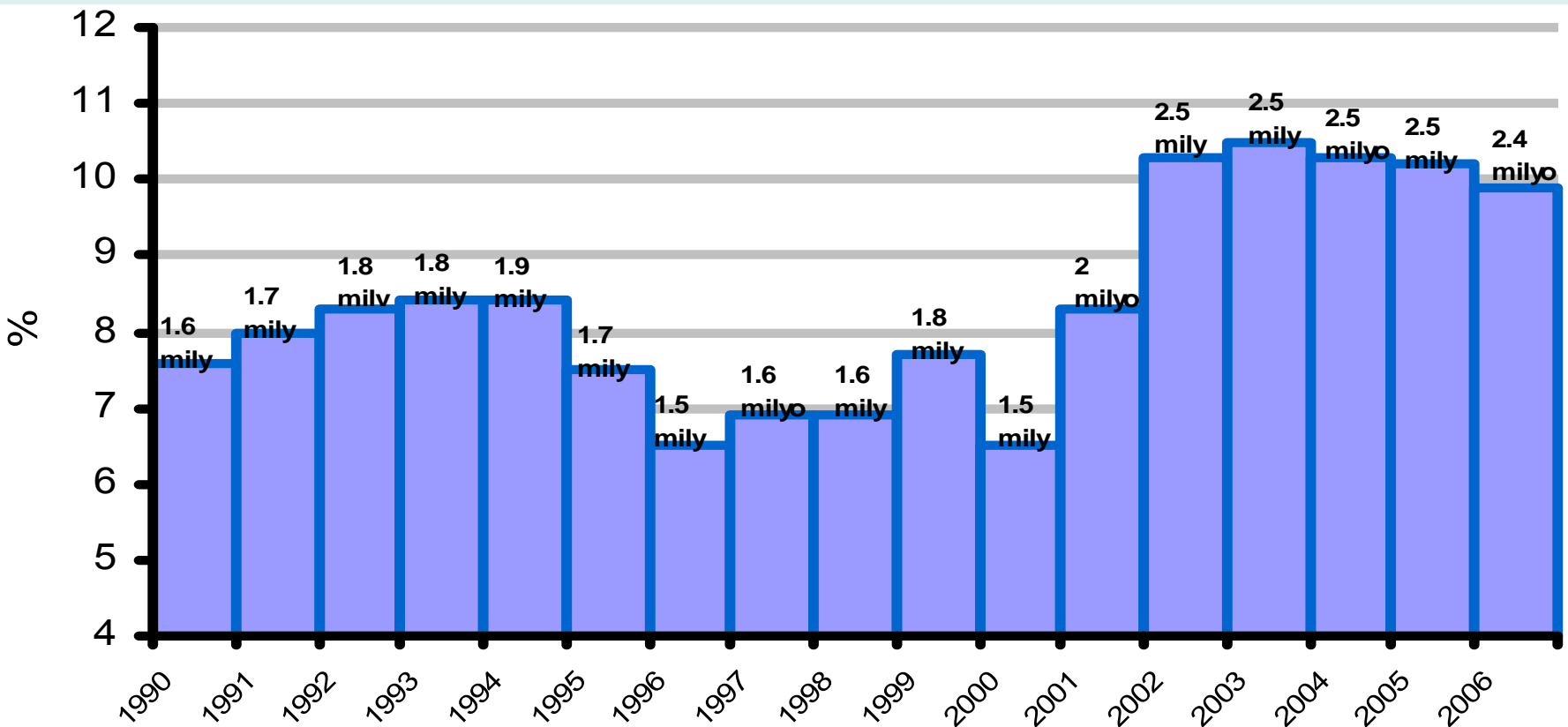


# Is the growth inclusive? – middle class seems to grow

	1999	2003	2006
Automobile sales (in thousands)	-	359	622
White good sales (in millions)	4	3	5,5
Airline passengers (in millions)	30	34	59
Mobile Phone Network subscribers (in millions)	-	26,6	51,4
# of people getting House Loans (thousands)	14	43	460
Consumer credit + credit cards (billion YTL)	-	12,8	67,7

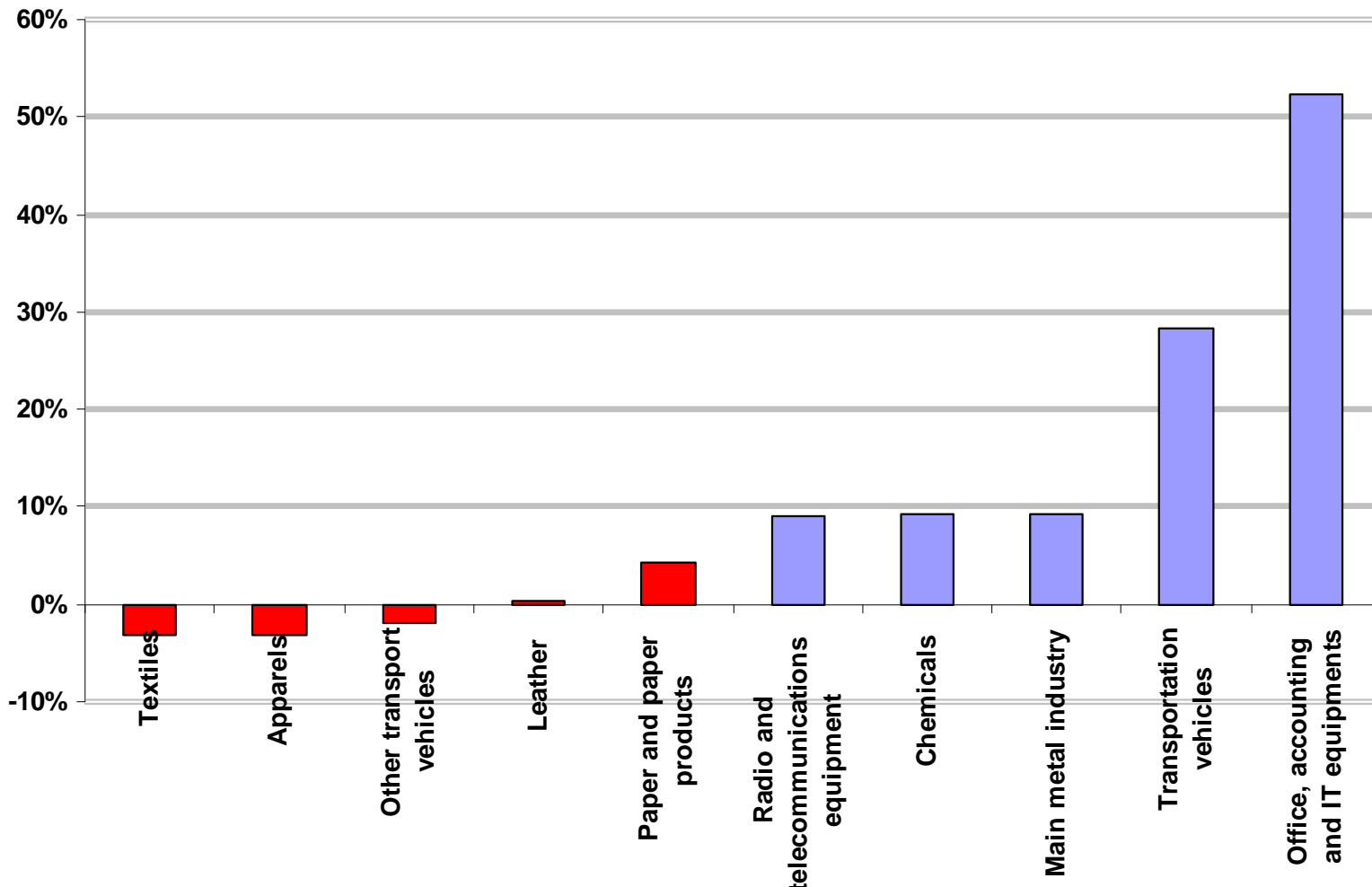
# Or is the growth exclusive (1)? – 2.5 million unemployed

Unemployment rate in Turkey (1990-2006)



# Or is the growth exclusive (2)? – some sectors are in trouble

Average annual growth rates in some manufacturing sub-sectors (2002-2006)

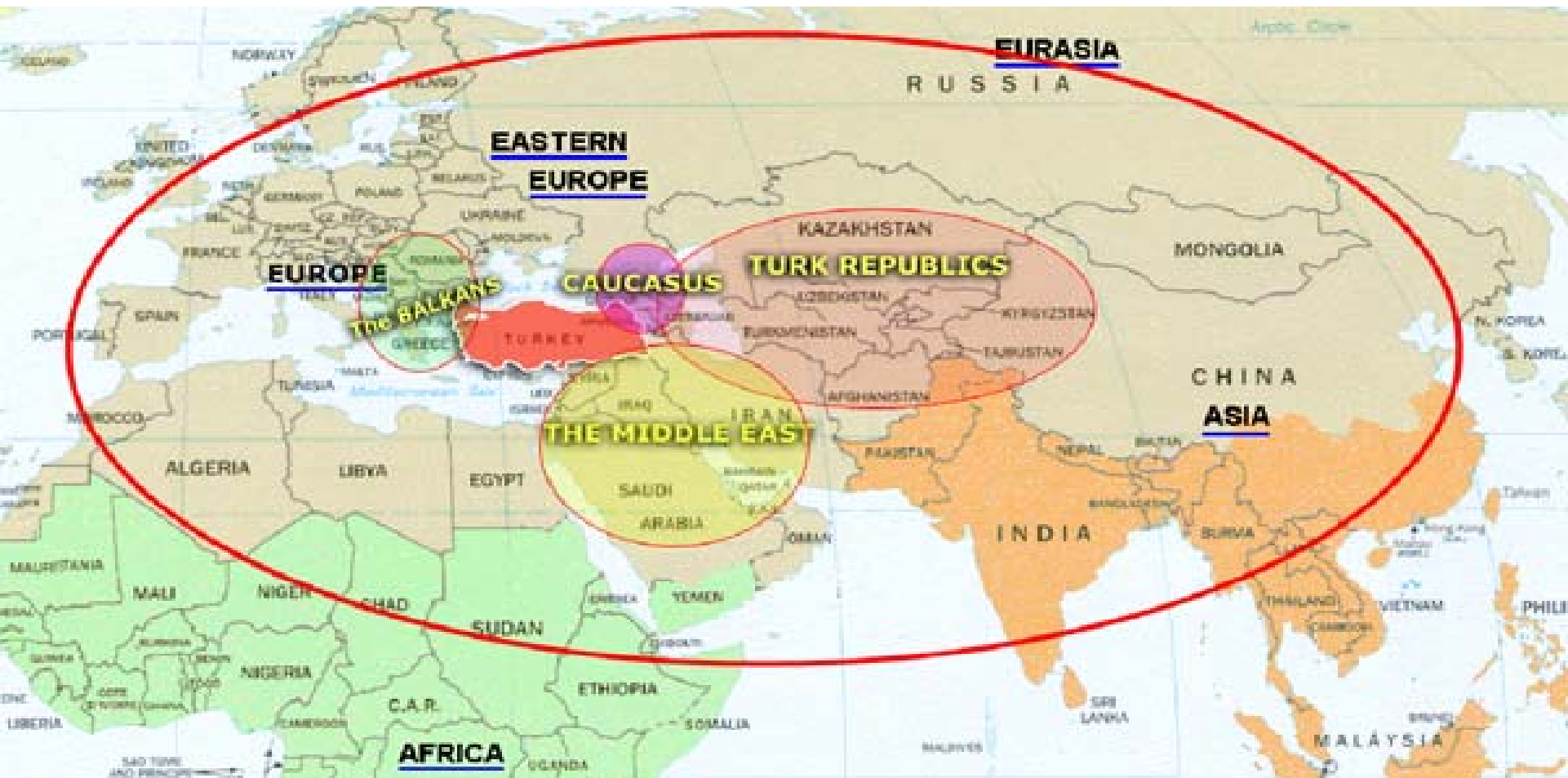


# Pillars of recent strong economic growth

- **First pillar:** First generation reform process after 2001 crises —“binary rules”—new rules for an old economy.
  - ➔ Fiscal discipline
  - ➔ Central bank independence
  - ➔ Strong monetary policy
  - ➔ Banking system reform after a banking crisis
- **Second pillar:** Favorable global economic conditions
- Now: First pillar has lost relevance; second pillar has shaken.
- Question: Will Turkey decouple itself from unfavorable global economic conditions?

## Turkey's global storyline:

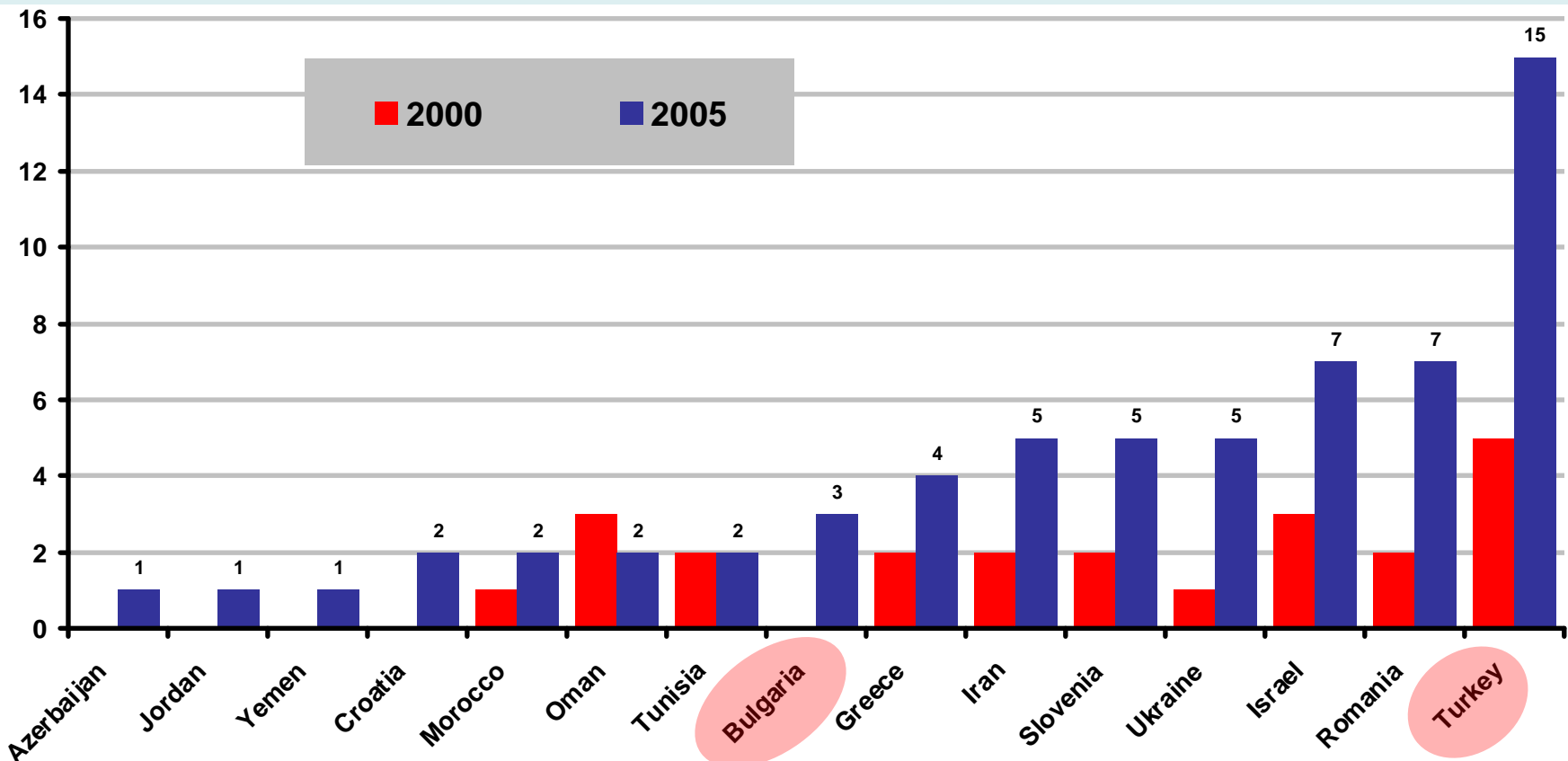
- An investment hub, with access to markets of 1 billion people.
- Two centers of growth: the strongest private sector and institutional infrastructure between EU and China



# Turkish economy becomes increasingly diversified in the region

in terms of markets..

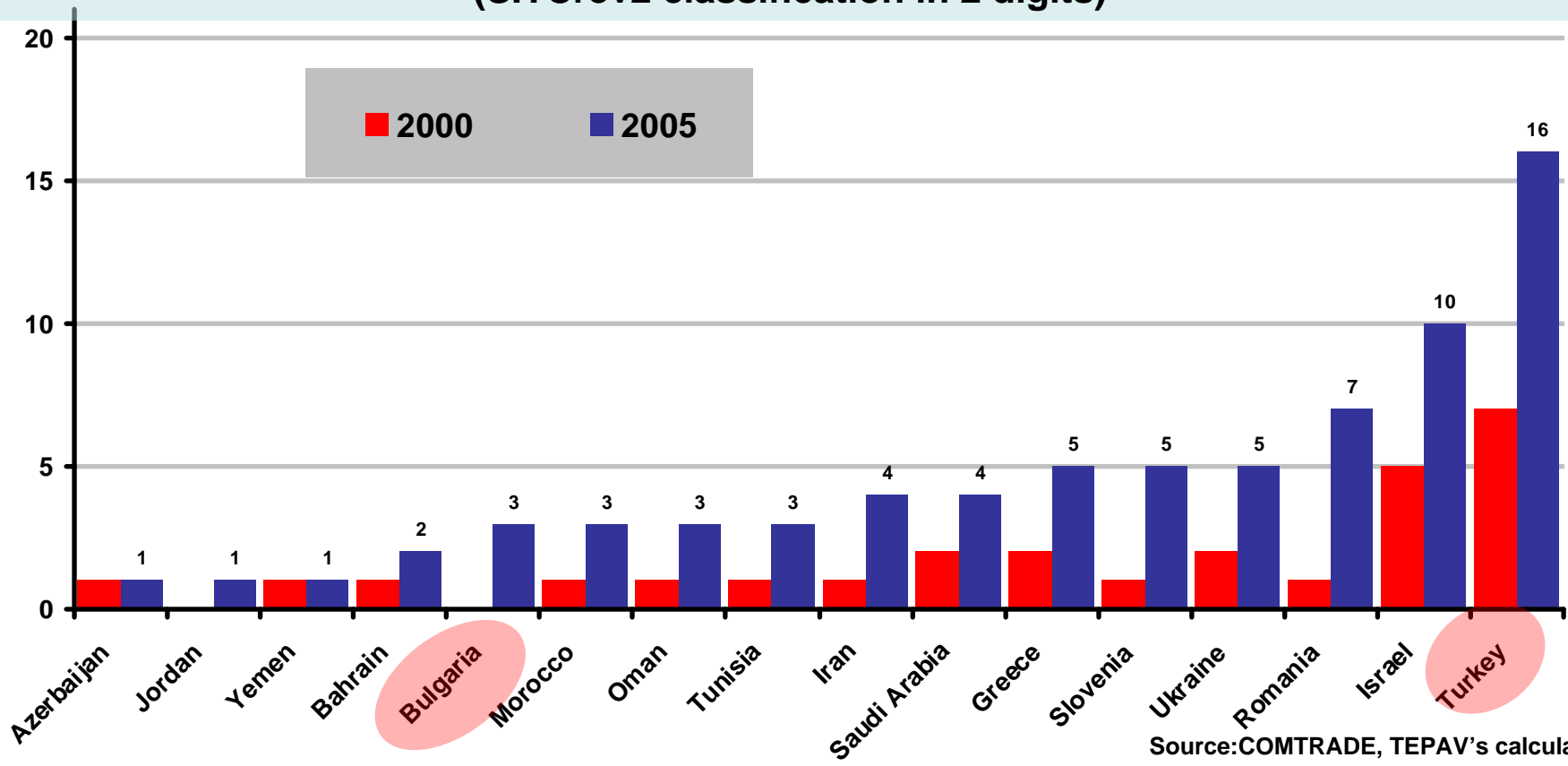
Number of export destinations with a volume over 1 billion USD



# Turkish economy becomes increasingly diversified in the region

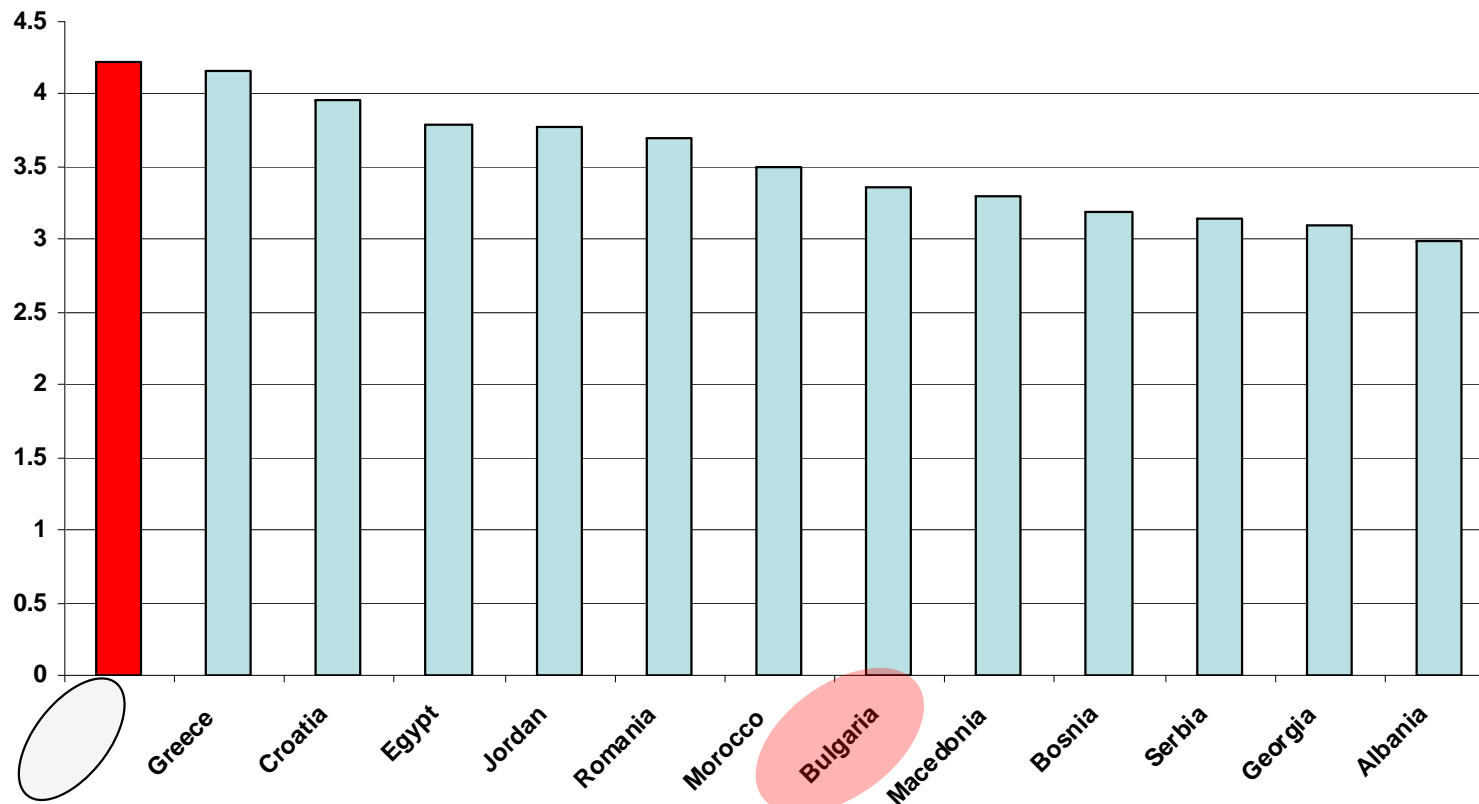
in terms of products..

Number of export items with a volume over 1 billion USD  
(SITCrev2 classification in 2 digits)



# The most sophisticated private sector in the region

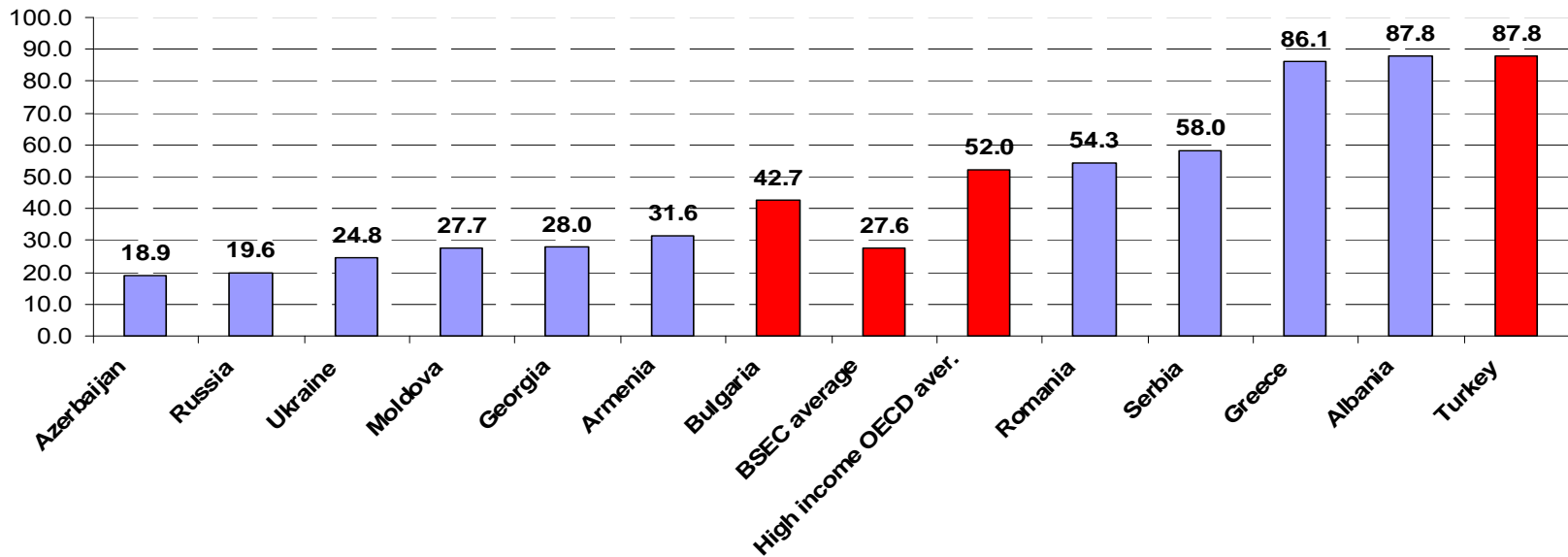
Business sophistication index, WEF, 2006



Local supplier quality / quantity; Production process sophistication; Marketing skills; Access to international markets; Nature of competitive advantage; Existence of value chain; Customer sophistication;

# Role of chambers in private sector development

- Turkish business sector became a stakeholder in decision making process during the first-generation reform period.
- Its involvement is necessary for the sustainability of the second generation reform process
- Implications for our neighbours???



# Can Turkey deliver the new story?

- Yes, but Turkey has to complete her own transformation: “second generation reform process”
  - ➔ From rule change to institutional change.
    - Very different from the previous one
- New requirements
  - ➔ Program need
  - ➔ Coordination need
  - ➔ Consensus-building need
  - ➔ Communication strategy need
- Political power shift
  - ➔ Will it help us focus or cause digression?

# Second generation reforms: New objectives; new program

- Turkey could successfully normalize its economy.
  - ➔ Hence, today's objectives have to be different from yesterday's.
- There is a need for a brand new program+ **discipline**
  - ➔ This will be AKP's first program.

	First generation reforms	Second generation reforms
<b>Objectives</b>	<ul style="list-style-type: none"><li>✓ Restoring growth</li><li>✓ Reducing inflation</li></ul>	<ul style="list-style-type: none"><li>■ Sustaining growth</li><li>■ Maintaining macroeconomic stability</li><li>■ Increasing international competitiveness</li><li>■ Fostering social development</li></ul>
<b>Reform strategies</b>	<ul style="list-style-type: none"><li>✓ Changing macroeconomic rules</li><li>✓ Reducing the scale and scope of the state</li><li>✓ Reducing protectionism and statism</li></ul>	<ul style="list-style-type: none"><li>■ Strengthening the institutional infrastructure of a market economy</li><li>■ Reforming education, health, social security and other public services</li><li>■ Building strategic coordination mechanisms for competitiveness of the private sector</li></ul>

# Contentious reform areas – consensus building need

- Current reform agenda is more complex.
- Contentious issues untouched before 2007 (judiciary, education, health, social security)
  - ➔ Need for consensus building
  - ➔ New constitution

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	First generation reforms	Second generation reforms
<b>Reform areas</b>	<ul style="list-style-type: none"><li>✓ Drastic budget cuts and tax reform</li><li>✓ Price liberalization (incl. Exchange rate)</li><li>✓ Trade and foreign investment liberalization</li><li>✓ Private sector deregulation</li><li>✓ Privatization</li></ul>	<ul style="list-style-type: none"><li>■ Labor market reform</li><li>■ Public administration reform</li><li>■ Decentralization</li><li>■ Judicial reform</li><li>■ Upgrade regulatory capacities</li><li>■ Sectoral restructuring</li><li>■ Education reform</li><li>■ Health reform</li><li>■ Social security reform</li></ul>

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# Conclusion: It is doable

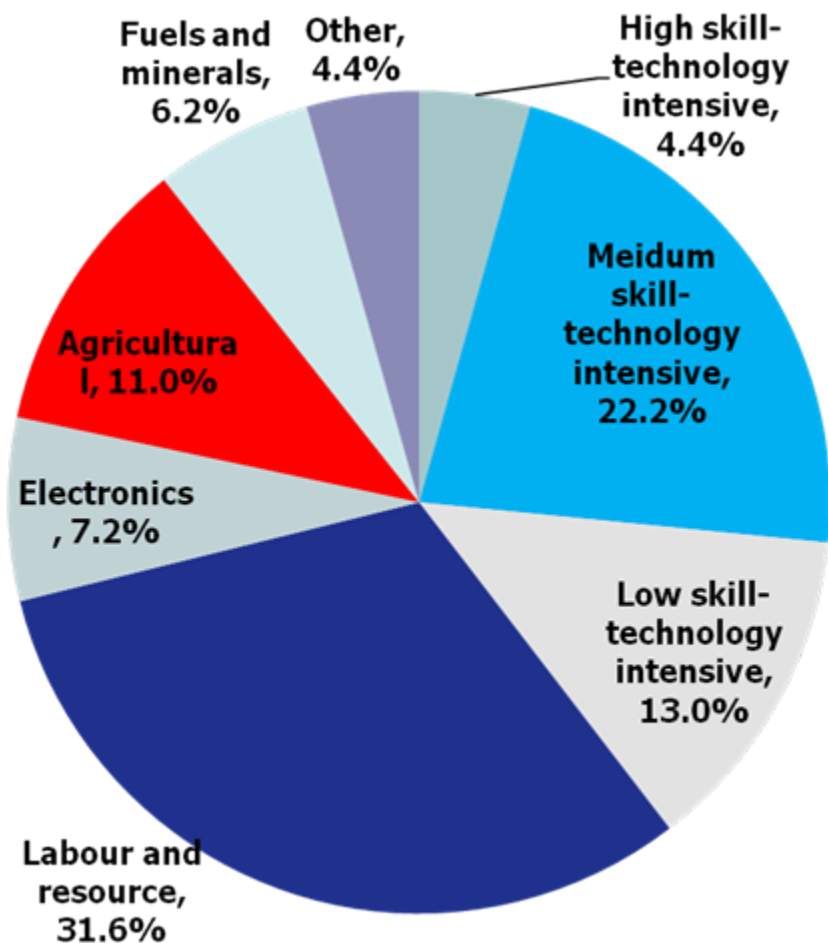
- Time for second generation reforms:
  - ➔ Changing or strengthening the institutional basis of the Turkish economy is the task to
    - Sustain a more equitable/inclusive growth process
    - Become more resilient to external shocks
- Pros and Cons: Can Turkey do it?
  - ➔ Need for a proof: Look at the achievements of the near past
  - ➔ A note of caution: Political power shift is tiring and distracting
  - ➔ EU process could be an anchor – but that's a different story and distracting, too.
- Turkey needs to focus on second generation reforms.

# Main economic indicators of Bulgaria and Turkey

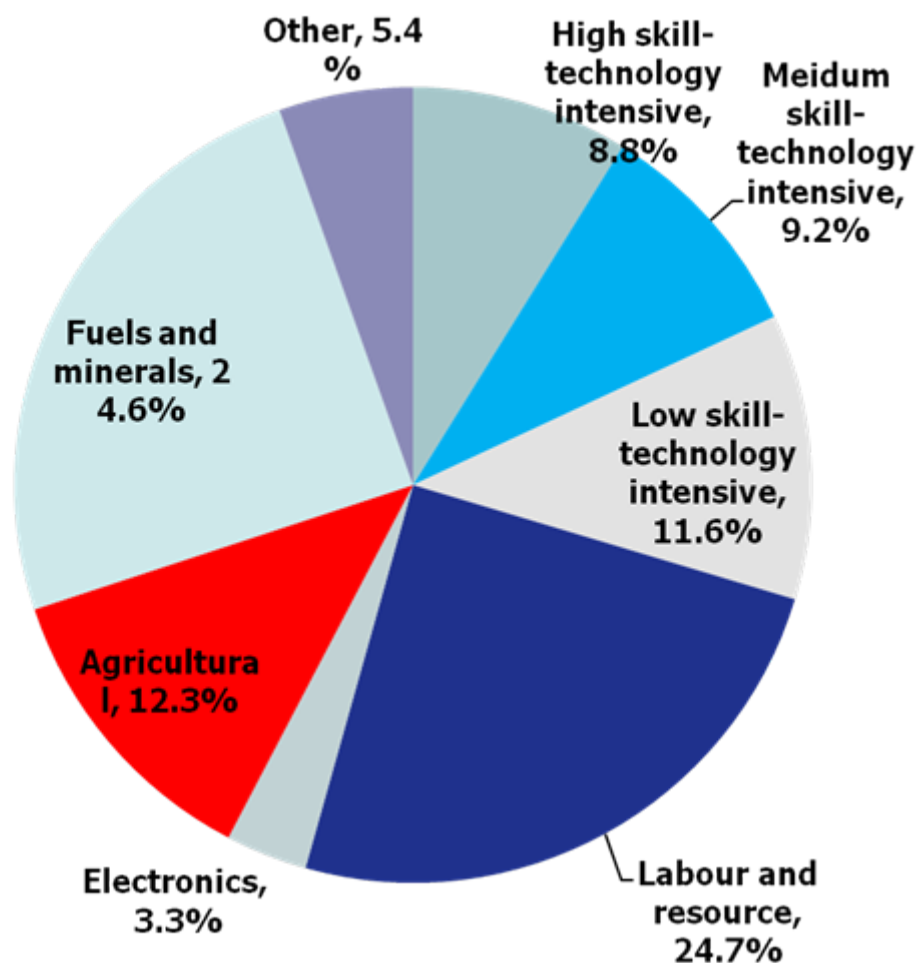
	Bulgaria, 2005	Turkey, 2005
Consumer price index (2000 = 100)	5.04%	8.18%
Current account balance (% of GDP)	-12.00%	-6.30%
Exports	18 billion USD	77 billion USD
GDP (current US\$)	27 billion USD	363 billion USD
Imports	21 billion USD	110 billion USD
Manufactures exports (% of merchandise exports)	59.30%	81.50%
Manufactures imports (% of merchandise imports)	65.30%	68.70%
Population, total	7,740,000	72,065,000

# Export structures

Turkey, 2005



Bulgaria, 2005



# Bilateral trade between Bulgaria and Turkey is expanding

