



Türkiye Ekonomi Politikaları Araştırma Vakfı

**Economic Transformation,  
Competitiveness and Investment  
Climate in Turkey:**  
Highlights from recent trends

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# Framework

- Economic transformation and competitiveness
- Major policy challenges
- Role of investment climate
- How did the priorities change over time?
- Some policy takeaways

# An overview of the recent progress of Turkish economy

	1980	2008
<b>Number of companies</b>	90,000	640,000
<b>GDP (billion \$)</b>	70	700
<b>Per capita GDP (USD)</b>	1,500	9,000
<b>Exports (USD billion)</b>	3	132
<b>Exports per worker (USD)</b>	65	1,800
<b>Industry share in exports</b>	10%	92%
<b>Number of exporters</b>	1,000	47,000
<b>Tourism revenue (billion \$)</b>	0,3	21
<b>Ranking in the world (in terms of GDP)</b>	25th	17th

# It has been a process of massive transformation

- From import-substitution to export-oriented industrialization
- Mass urbanization
  - Migration from rural to urban areas
  - Reversal of 75 to 25 percent distribution
- Rapid spread of industry in Anatolia
  - Formerly only in Istanbul, Izmir, Bursa, Adana
  - Emerging industrial cities: Gaziantep, Denizli, Konya, Kayseri, Kahramanmaraş, even Ankara...
  - Spread of consumption culture; shopping malls and new urban life

# A new era after 2001 crisis

- A new economic program:
  - Strong macroeconomic policy framework
  - Structural reforms
  - Independent central bank
  - Banking sector reform
  - Floating exchange rate regime
  - A better investment climate
- Successful implementation of the economic (IMF) program and the EU accession reforms triggered a deep structural transformation

# Some economic indicators

	1980	1990	2001	2008	Jan-June.2009
GDP per capita (PPP)	2,730	5,510	7,670	12,730	11,940*
Exports (million USD)	2,910	12,959	31,334	132,028	47,746
Imports	7,513	22,407	41,399	201,963	62,325
Inflation	45%	60%	69%	10.06%	5.73%
FDI (million USD)	18	684	2,855	15,414	3,409
Domestic debt / GDP	10%	11%	51%	29%	32%*

## Average annual growth rates

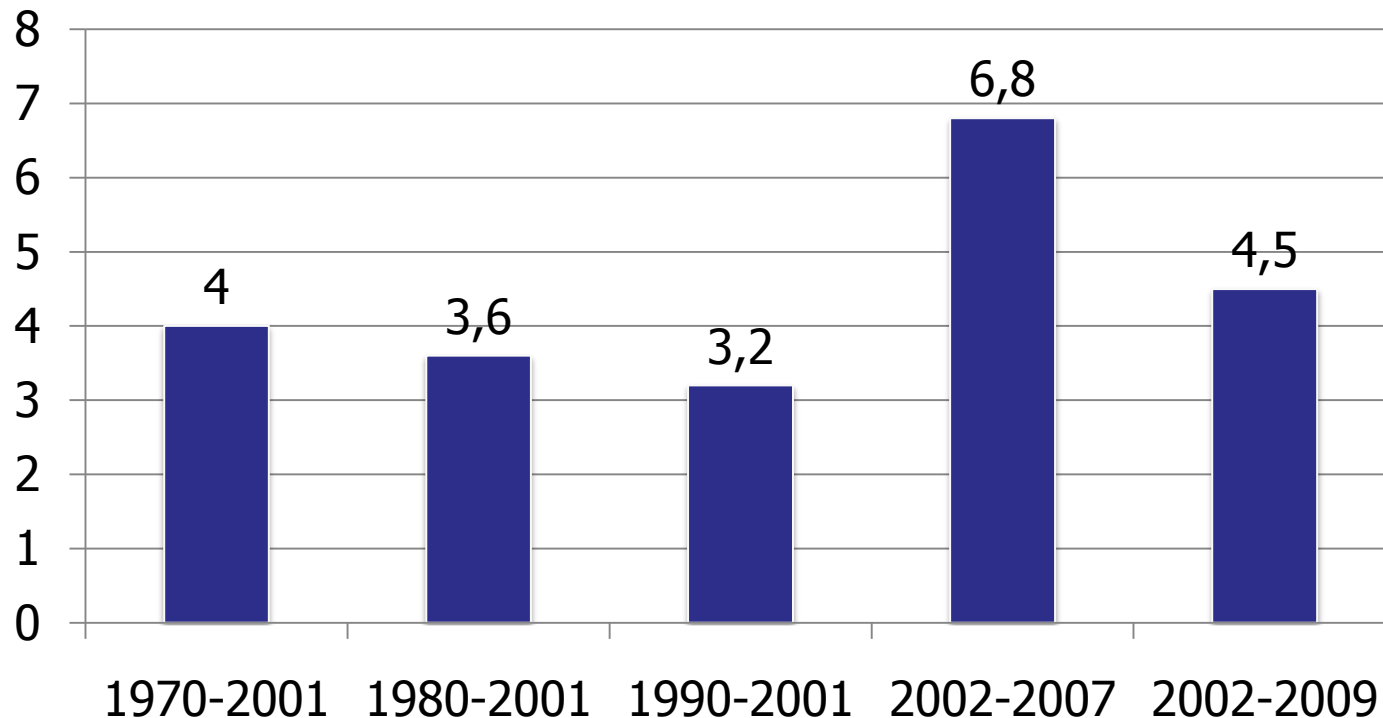
	1980-1990	1990-2001	2001-2008
GDP (in reel terms, YTL)	5.21%	2.52%	5.18%
GDP per capita (PPP)	7.12%	2.78%	6.54%
Exports (million USD)	16.11%	9.27%	19.70%
Imports	11.55%	4.94%	21.91%

Notes:

\* Forecast of EIU for the end of year

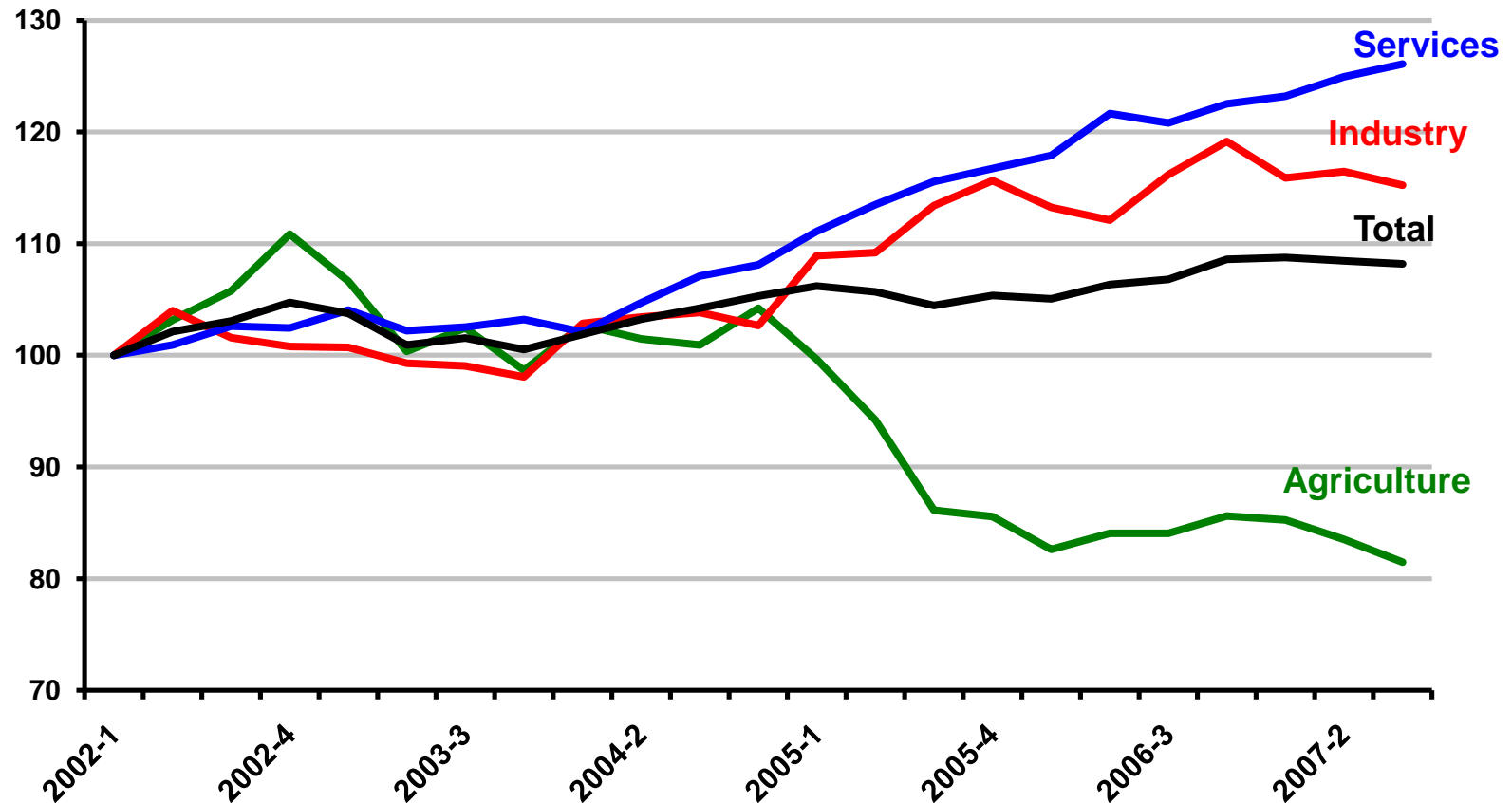
## Turkey's growth performance

Average annual GDP growth rate for selected periods, 1970-2009, %



# Job creation capacity recently varied across sectors

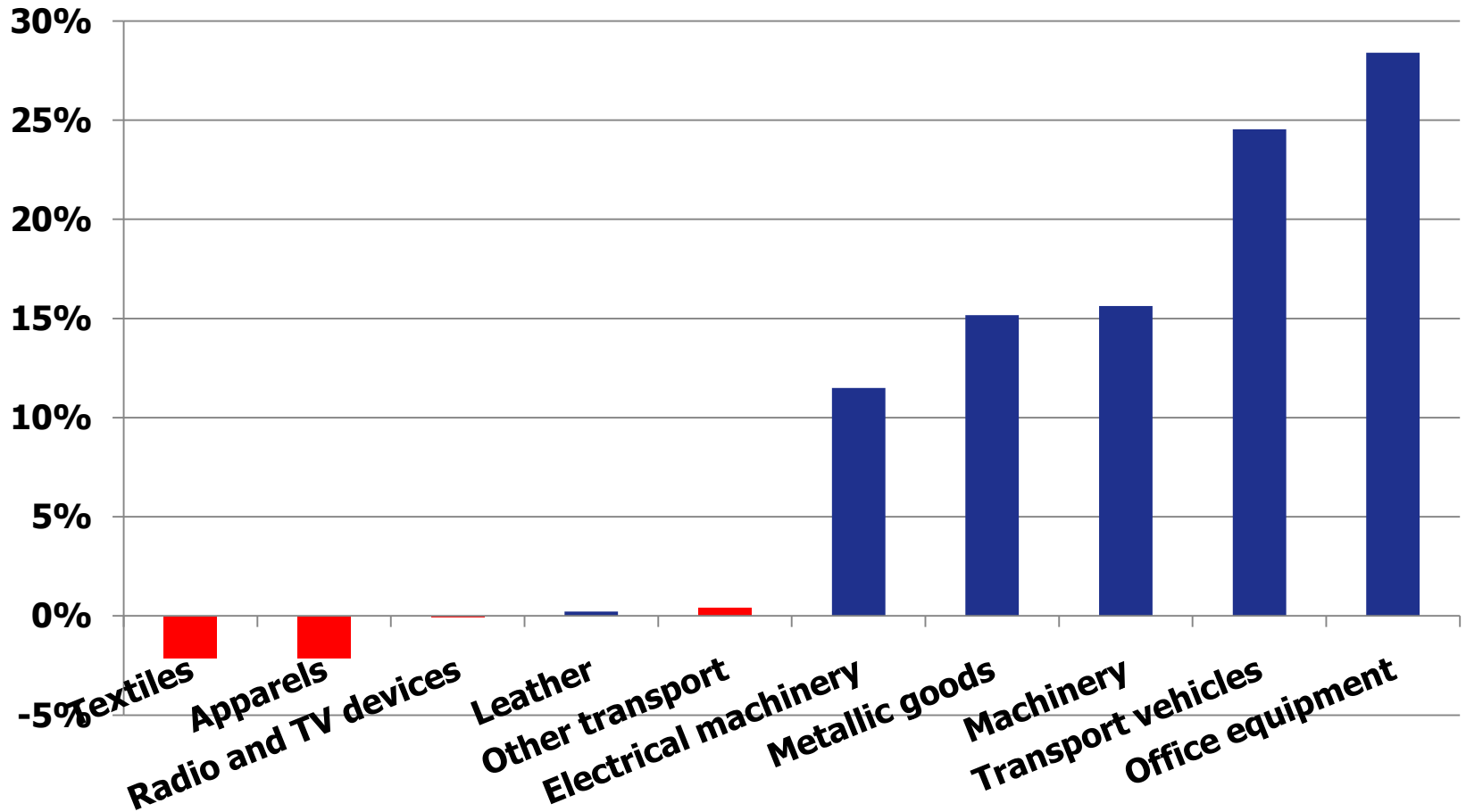
Sectoral employment trends (2002=100, 2002-2007)





# Shift from traditional to modern: *case of manufacturing industry*

Average annual growth rates of manufacturing sub-sectors (2002-2007)



# Changing structure of exports & changing opportunities and challenges

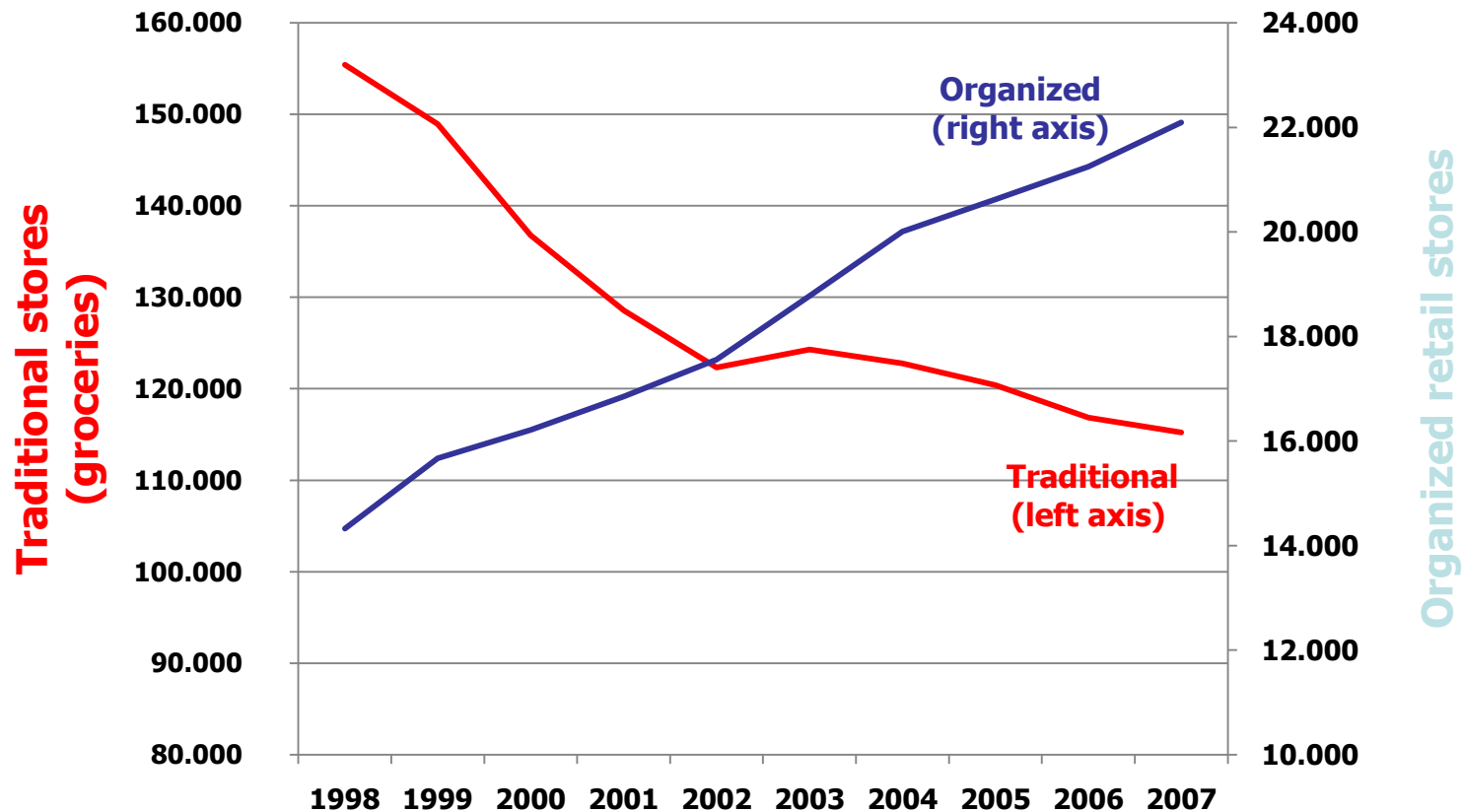
Technological structure of exports					
Turkey			China		
	2000	2005		2000	2005
High tech	8,9%	6,8%		24,37%	35,04%
Medium tech	24,2%	35,4%		44,75%	33,09%
Low tech	52,7%	42,4%		20,86%	22,75%
Resource based	14,2%	15,5%		10,02%	9,13%

Analysis based on UNIDO Technological Classification of Goods

Source: UN COMTRADE

# Shift from traditional to modern: *case of services*

Number of retail stores and grocery stores (1998-2007)

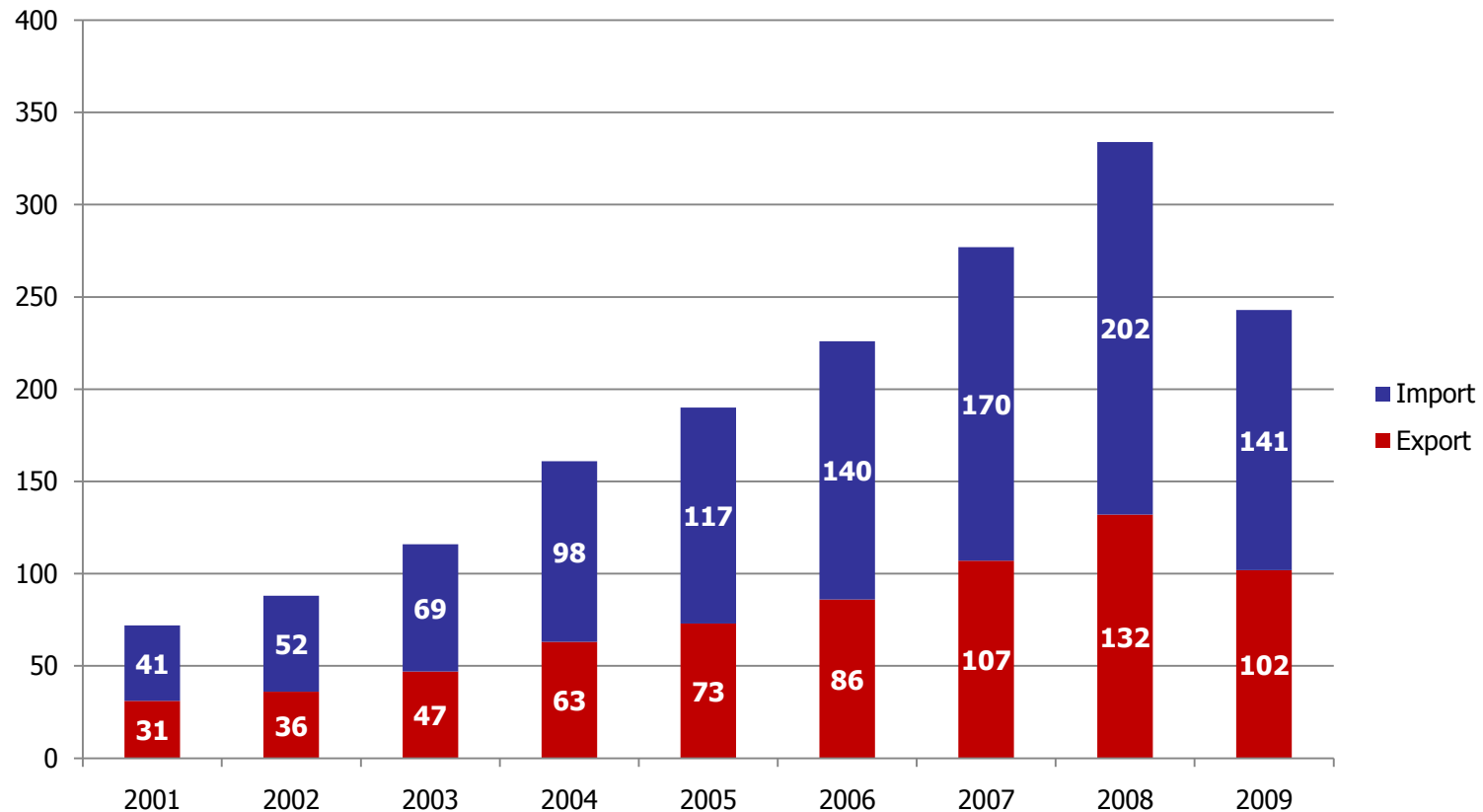


## Emergence of a new middle class

	1999	2003	2006	2008
Automobile Sales (in thousands)	-	359	622	494
White Good Sales (in millions)	4	3	5.5	5.2
Airline Passengers (in millions)	30	34	59	75
Mobile Phone Network Subscribers (in millions)	-	26.6	51.4	64
# of People Getting House Loans (thousands)	14	43	268	237
Consumer Credit + Credit Cards (billion TL)	-	12.8	67.7	114

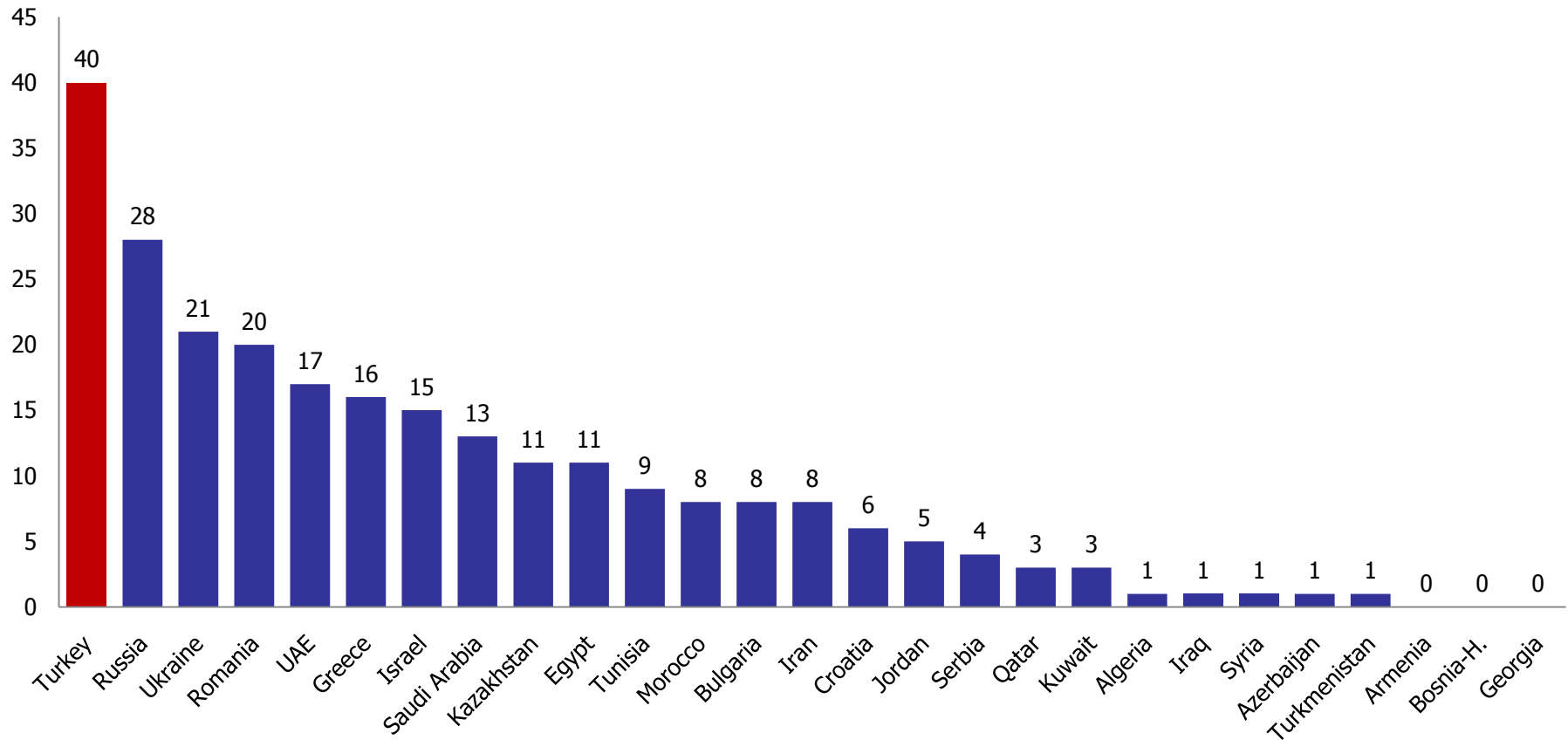
# Integration into the global economy: EU Customs Union met political and economic stability

Turkey's import and export volumes, 2001-2009, billion USD



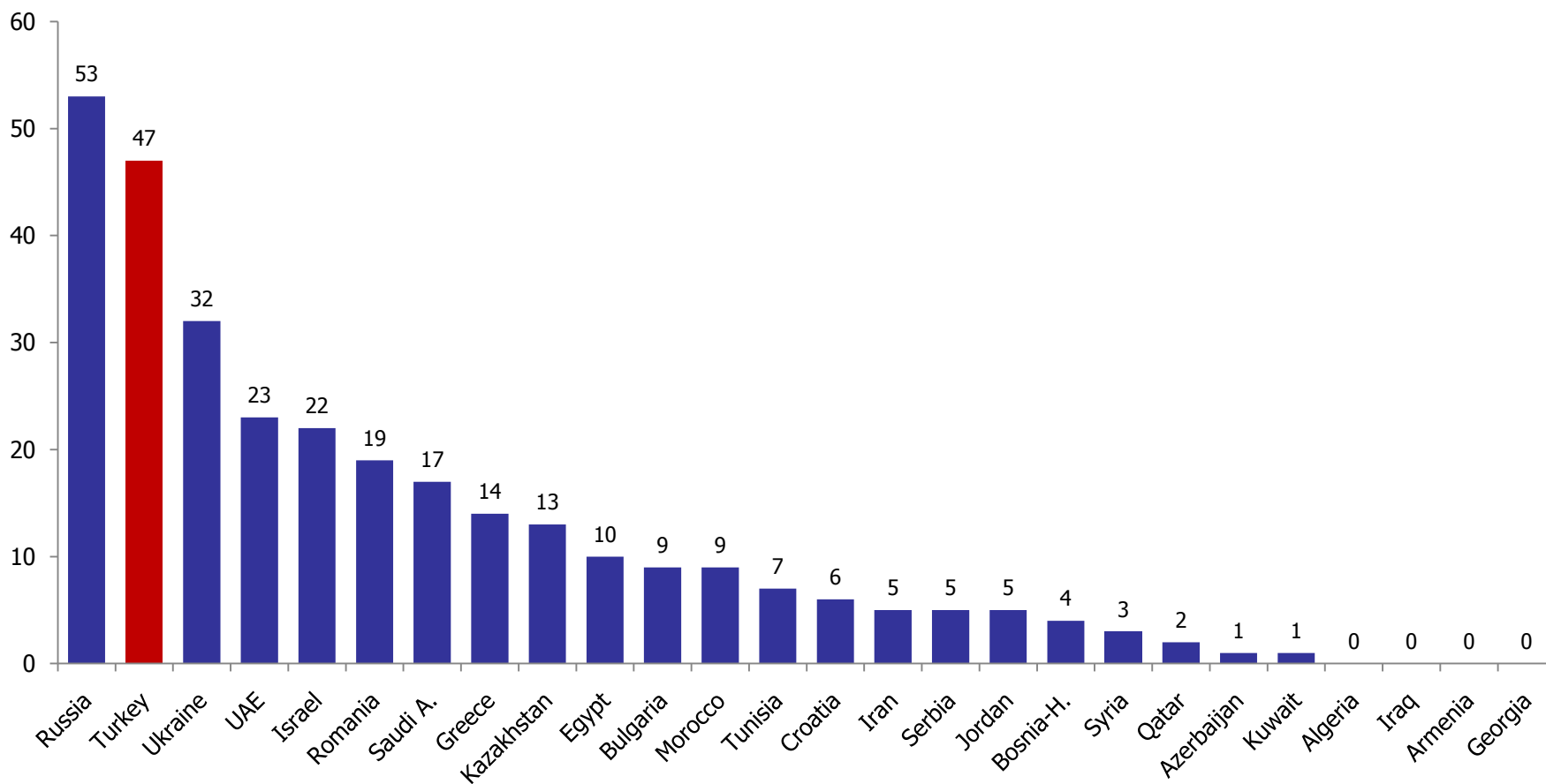
# Sectoral diversification is increasingly a critical feature of Turkish economy

Number of sectors with above \$ 500 million exports (HS4 classification, 2 digit, 2007-2008)



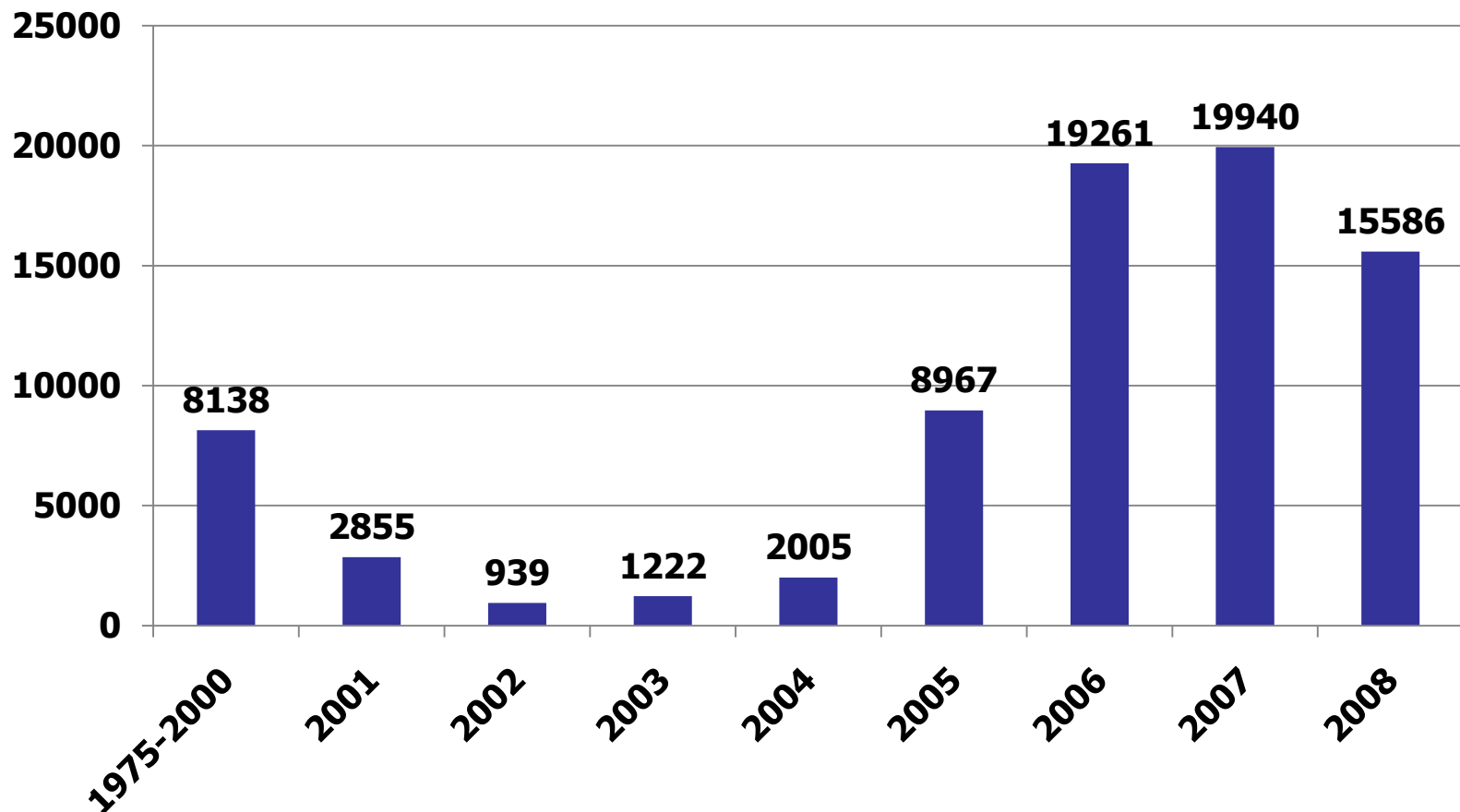
# Geographically diversified export portfolio: presence in various different markets

Number of export destinations (non-energy) over \$ 500 million volume, 2007-2008



# Rapid increase in FDI

Foreign direct investment flows, million USD





# Emerging and star sectors

## Services

- Construction – real estate
- Energy
- Telecommunication
- Logistics
- Media
- Health care
- Education – training
- Retail
- High-tech and e-commerce

## Industry

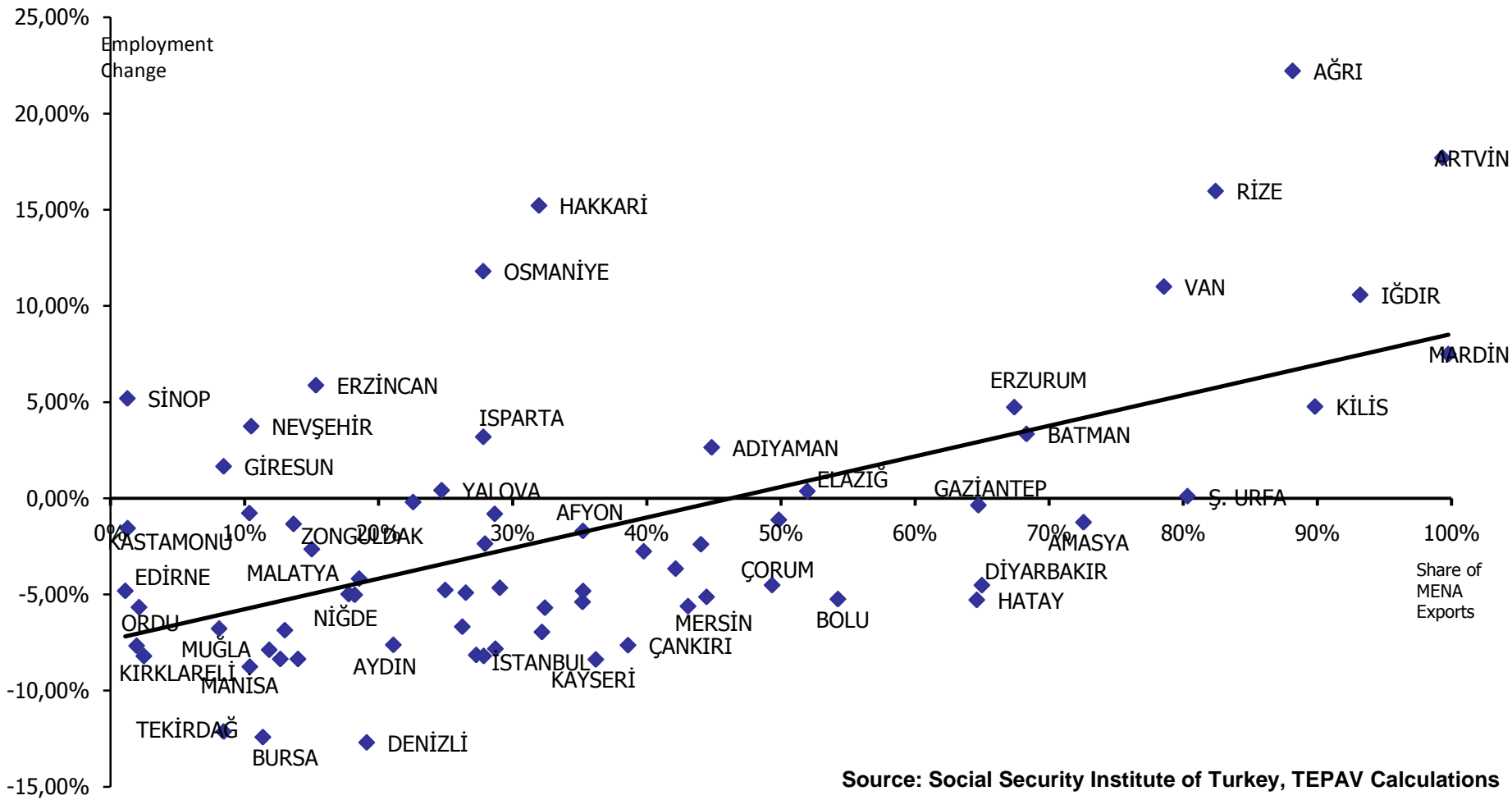
- Automotive
- White goods
- Electric/electronics
- High quality apparels /textile (fashionwear)
- Pharmaceuticals
- Organic agribusiness
- Construction materials – cement
- Iron and steel

# How does the crisis affect the Turkish economy?

- Foreign credit channel
- Domestic credit channel
- Foreign trade channel
- Confidence channel

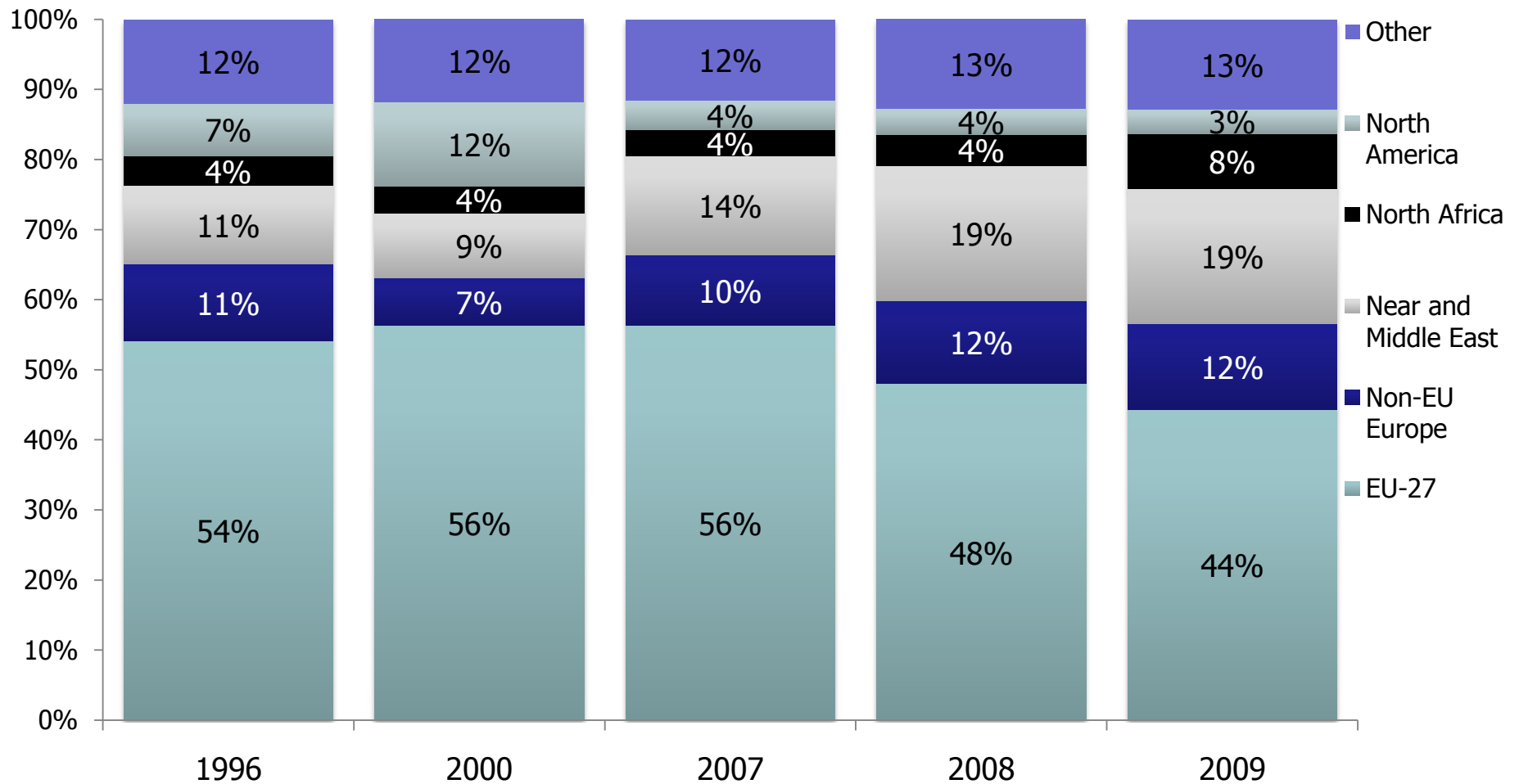
# MENA focus was a big advantage for some Turkish cities during global economic crisis

Change in registered employment and share of cross-border exports in different cities of Turkey, 2009 Q1-Q2



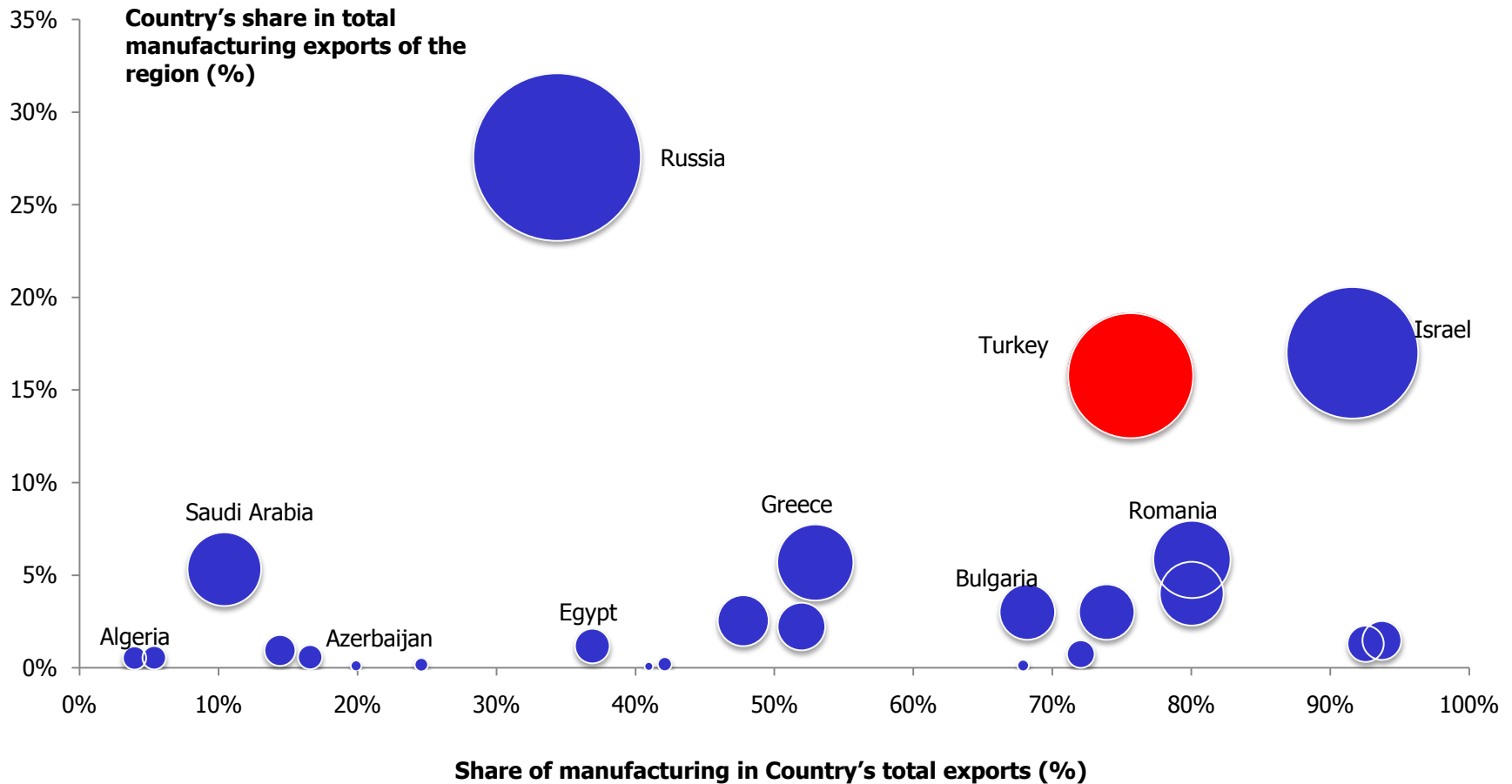
Source: Social Security Institute of Turkey, TEPAV Calculations

## Geographic composition of Turkey's exports: EU-Turkey Customs Union brings Turkey closer to her region



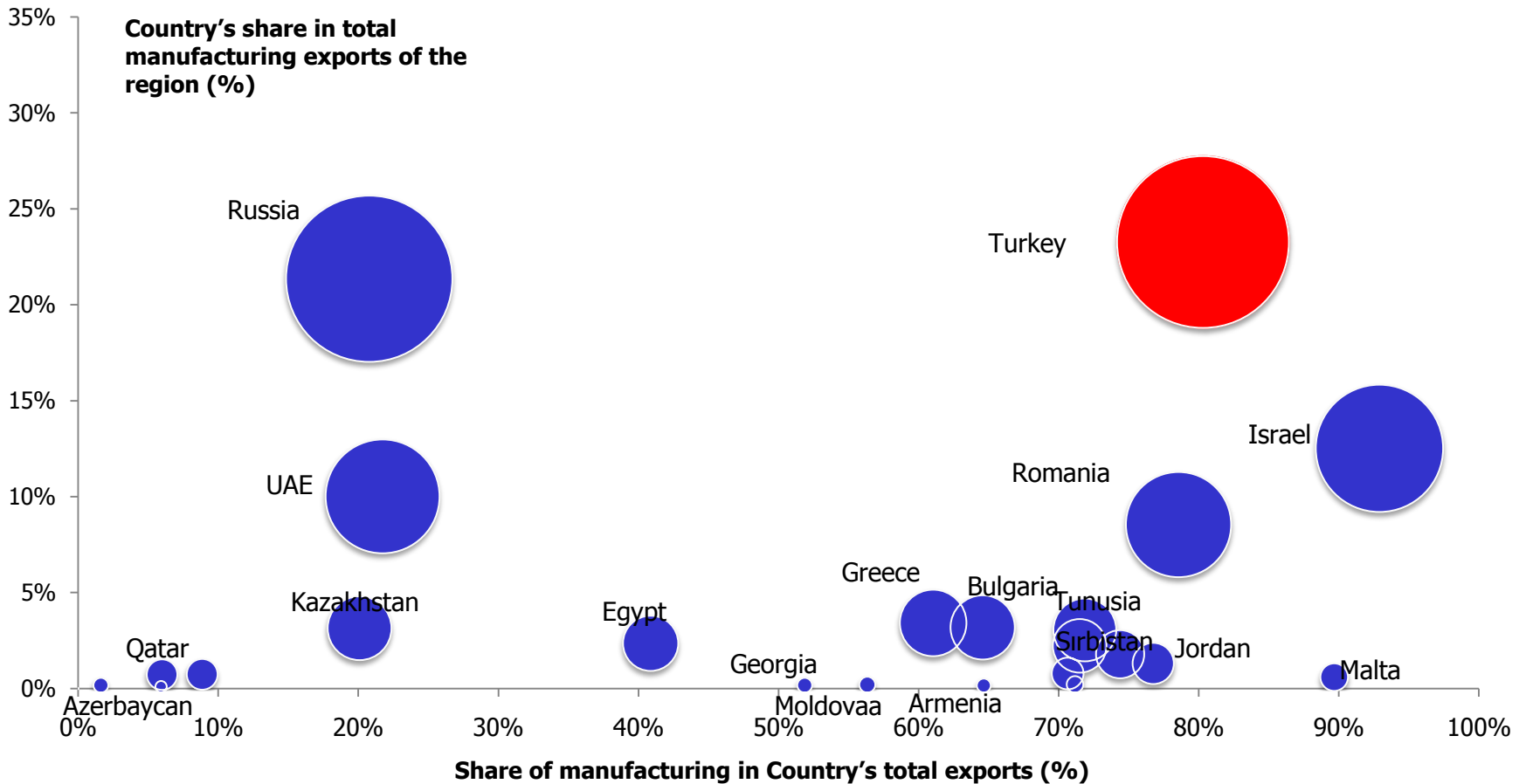
# Rapid growth in manufacturing after mid-90's

Export indicators of the countries in the region (1996)



# Today Turkey is the largest manufacturer in the region

Export indicators of the countries in the region (2008)



## Turkey's global storyline:

- An investment hub, with access to markets of 1 billion people.



# Turkey's major policy challenges

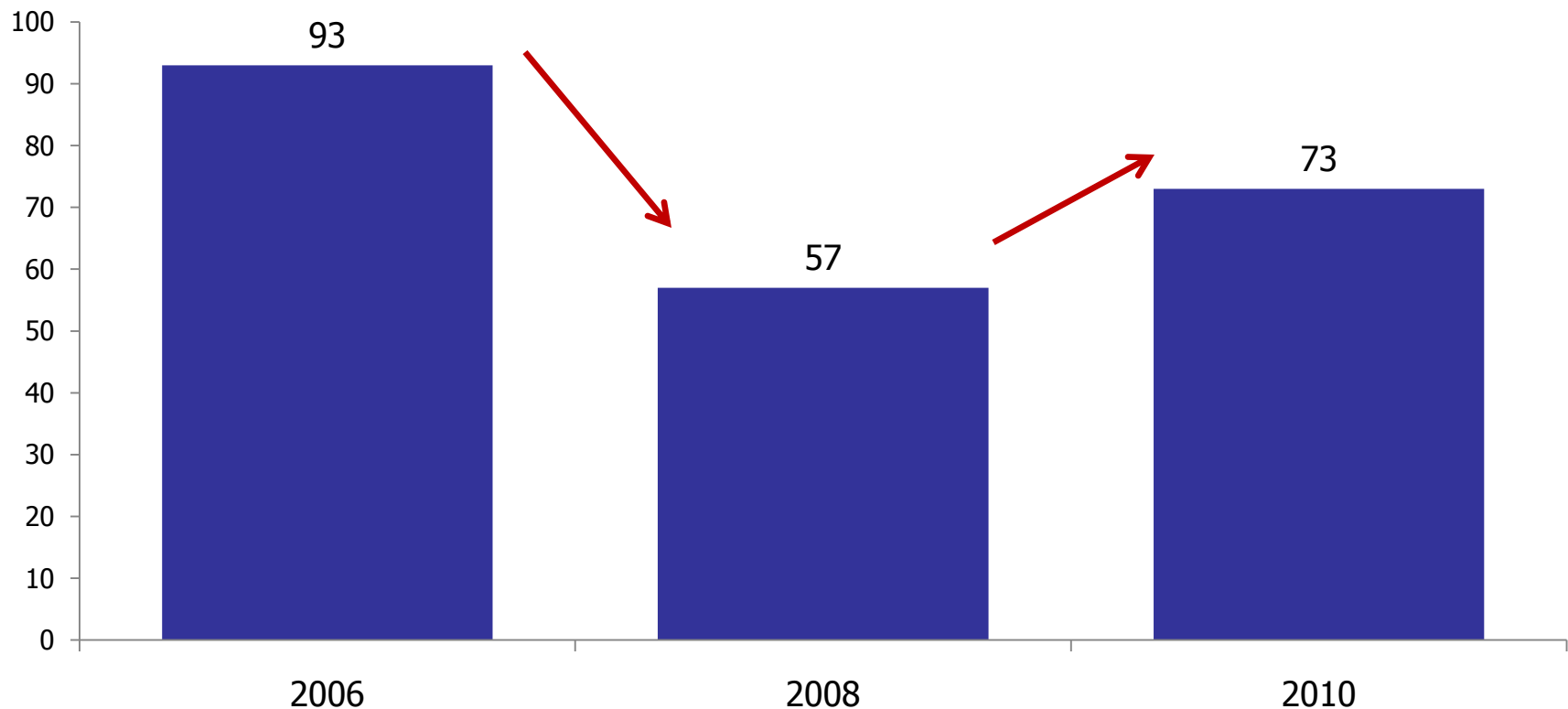
1. The decision: What is the way forward?
  - Proximity to market (EU) or a new high-tech jump
  - Large domestic market a curse?
2. Unemployment at a new stage
  - Skill conversion need of the labor force
  - Active labour force policies absent
3. Female labor force participation need for a new breakthrough
4. Bank behaviour—access to finance—why banks are not choosing high productivity performers
  - Indiscriminate financing could cause low-productivity firms to grow as fast as high-productivity firms





# After 2007, reforms slowed down in Turkey and this was the result...

Ease of Doing Business Rank, Turkey



# YOİKK process in Turkey

- 2001: FIAS report
  - “Administrative Barriers to Investment in Turkey”
- 2002: Decision of the Council of Ministers
  - Reform Program for Improving the Investment Climate
- 2002: Establishment of a public-private dialogue mechanism: YOİKK
  - “Coordination Council for Improving the Investment Climate”
- 2002-present:
  - Forming of several task forces/technical committees

# Turkey now has a more conducive business environment

<b>Trading across borders</b>	<b>2005</b>	<b>2009</b>
<b>Documents for export (number)</b>	<b>8</b>	<b>7</b>
<b>Time for export (days)</b>	<b>20</b>	<b>14</b>
<b>Documents for import (number)</b>	<b>13</b>	<b>8</b>
<b>Time for import (days)</b>	<b>25</b>	<b>15</b>

<b>Starting a business</b>	<b>2004</b>	<b>2009</b>
<b>Procedures (number of days)</b>	<b>13</b>	<b>6</b>
<b>Time (days)</b>	<b>38</b>	<b>6</b>
<b>Cost (% of income per capita)</b>	<b>36.8</b>	<b>14.9</b>
<b>Min. capital (% of income per capita)</b>	<b>31.6</b>	<b>10.9</b>

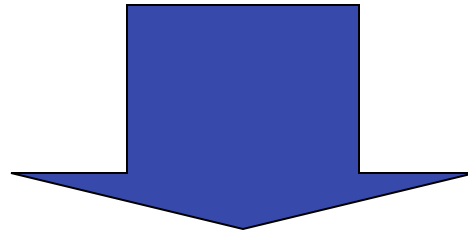
## Doing Business Indicators (2009)

	Malaysia	Pakistan	Indonesia	Iran	Syria	Turkey
<b>Ease of Doing Business</b>						
Ranking	23	85	122	137	143	73
<b>Starting a Business</b>						
Cost (% of income for capita)	11.9	5.8	26.0	3.9	27.8	14.2
Time (Day)	11	20	60	9	17	6
Ranking	88	63	161	48	133	73
<b>Dealing with Construction Permits</b>						
Procedures (Number)	25	12	14	17	26	25
Time (Day)	261	223	160	322	128	188
Ranking	109	105	61	141	131	133
<b>Protecting Investors</b>						
Strength of Investor Protection Index (1-10)	8.7	6.3	6.0	3.0	4.3	5.7
Ranking	4	27	41	165	119	57
<b>Getting Credits</b>						
Strength of Legal Rights Index (0-10)	10	6	3	4	1	4
Depth of Credit Information (0-6)	6	4	4	3	0	5
Ranking	1	61	113	113	181	71
<b>Trading Across Borders</b>						
Time to export (days)	18	22	21	25	15	14
Cost to import (\$ per container)	450	680	660	1706	1625	1063
Ranking	35	78	45	134	118	67

# Investment Climate Assessment (ICA)

- What are ICAs?

- **Survey**
- **Background Papers**
- **Report**



Policy Dialogue

World Bank's Country Assistance Strategy

# What does an ICA provide?

- Identifying the appropriate binding constraints to doing business
  - Variations across sectors / regions / firm sizes
- Assessing role of investment climate in determining business sector's economic performance
- Benchmarking against
  - China
  - New and potential EU members
  - Other comparable countries (Argentina, Russia)
- Policy recommendations and best-practices

## Investment Climate Surveys /Studies conducted

COUNTRY	INVESTMENT SURVEY CONDUCTED
INDONESIA	Enterprise Survey (2009)
MALAYSIA	Enterprise Survey (2007) Productivity and Investment Climate Survey (2007)
SYRIA	Enterprise Survey (2009)
IRAN	-
EGYPT	Productivity and Investment Climate Private Enterprise Survey (2008)
SUDAN	-
PAKISTAN	Investment Climate Survey (2006) Enterprise Survey (2007)
SAUDI ARABIA	Productivity and Investment Climate Private Enterprise Survey (2005)
KUWAIT	-
LIBYA	-
TURKEY	Financial Crisis Survey (2010) Business Environment and Enterprise Performance Survey (BEEPS) (2002) Investment Climate Survey (2005) Enterprise Survey (2008)



# Turkish investment climate (1)

- Since 2008, external economic environment deteriorated markedly;
  - With falls in external demand
  - Falls in international capital flows and
  - Associated declines in domestic demand and credit availability
  
- Between 2002 – 2007 → Turkish GDP averaged nearly 7% per annum
  - Annual growth in 2007 fell to 4.7%
  - Unemployment reached 14% in 2009
  
- Labor force participation fell from 49.6% in 2000 to 46.9% in 2008. Only 26.7% of women participated in the labor force (compared to OECD average of 61.3%)

## Turkish investment climate (2)

- Exports fell by 23% in 2009 and industrial production in 9.6% compared to 2008.
  - Exports to the EU27 has fallen to 46.3% in 2009, from an average of 58% between 2002-2007
  - Exports to U.S. also declined from 11.3% in 2000; to 3.1% in 2009
  - Instead shares of exports increased to Middle East (from 8% to 16.5%); and to Africa (from 4.9% to 9.9%) in the same period
- Capital flows to Turkey have also fallen from 50.3 USD billion in 2007 to USD 14.7 billion in 2008.
- Risk premia have escalated significantly from 167 basis points in 2007 to 200 in late 2009.

## Turkish investment climate (3)

- Net inflows of FDI fell from USD 15.4 billion in 2008 to USD 6 billion in 2009.
  - FDI inflows during 2006 were mostly in the financial sector and telecommunications;
  - Which shifted towards, electricity, gas and water supply and manufacturing (Shares of 33% and 28% respectively)
- While in 2009, most significant increase was in chemicals (USD 89 million to USD 306 million); and motor vehicles sector (USD 64 million to USD 208 million)

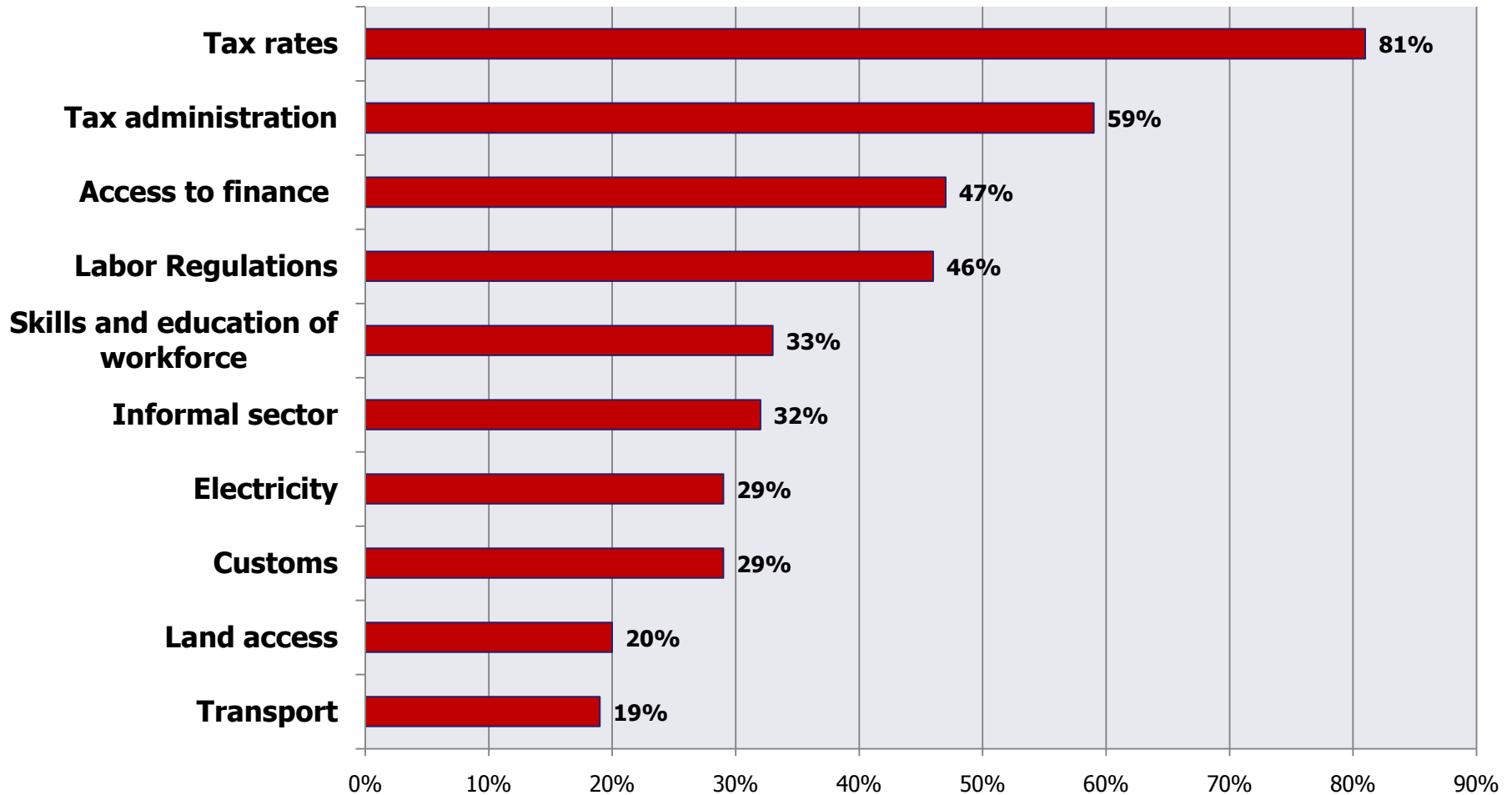
## Turkish investment climate (4)

- Corporate sector, in particular, has been hard hit by the slowdown in global demand
- Most enterprises experienced
  - A sharp contraction in sales
  - with reported declines of 40 % between 2008 and 2009
- 46% of firms surveyed, reported
  - Restructuring their liabilities
  - One-third delayed payments to tax authorities and suppliers
- Continued reform of investment climate is key to mitigating the effects of the crisis and closing the income gap with more developed countries

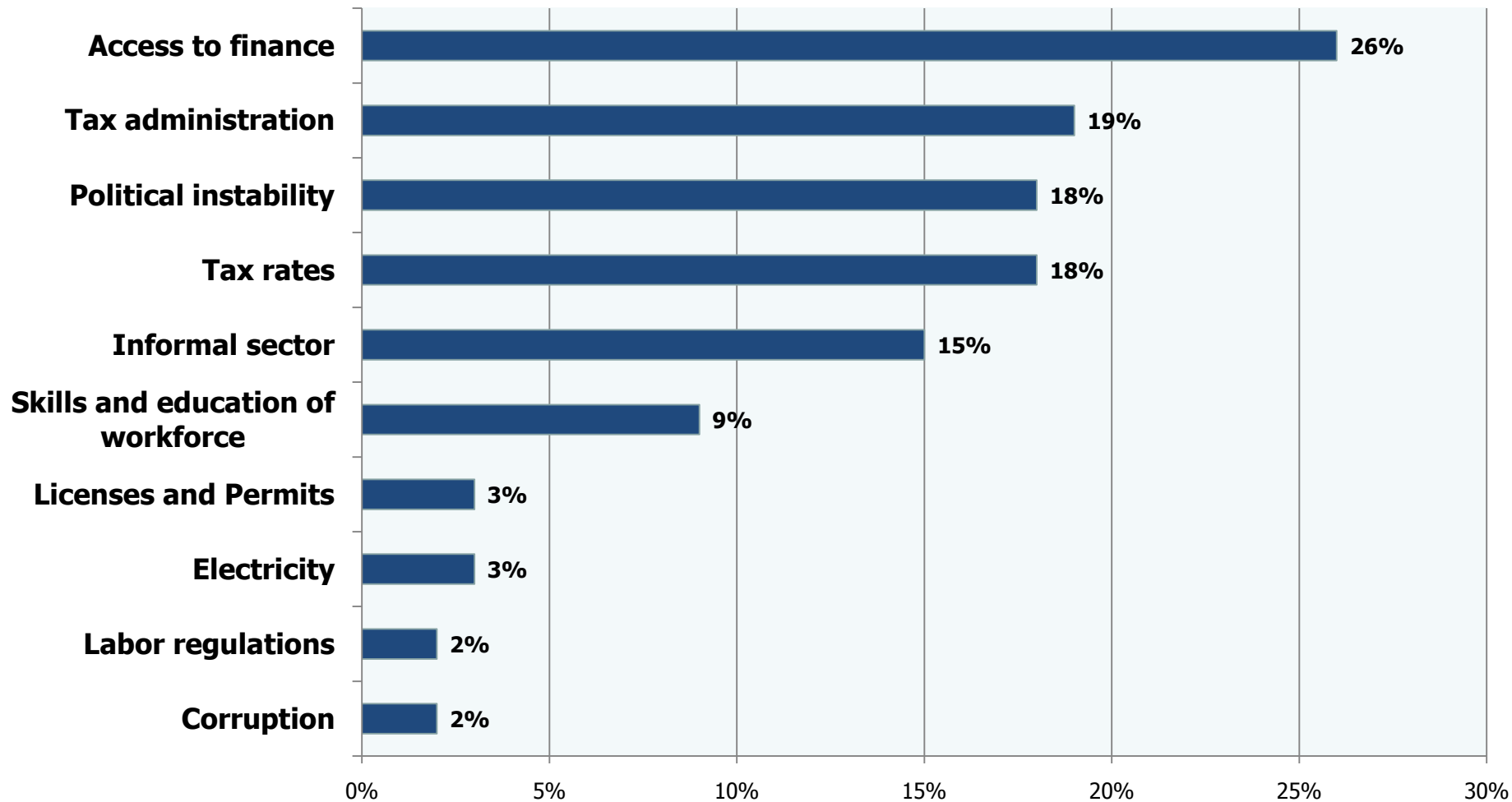
## Comparing ICA 2005 and 2008

- **ICA 2005:** TEPAV-WB “Investment Climate Assessment” study Started in 2004, first project of TEPAV
- A major product of the World Bank, applied to Turkey
  - Survey of 1300 manufacturing companies
  - A very detailed questionnaire (66 pages)
  - Questions regarding investment climate
  - Several background studies to complement the survey
- **ICA 2008:** YOİKK-WB “Investment Climate Assessment” study Started in 2008
  - Surveys of 1152 manufacturing companies

Percentage of firms – perceiving obstacles as “severe” or “very severe”, in ICA 2005



## Percentage of firms – perceiving obstacles as “severe” or “very severe”, in ICA 2008



## Key Priorities of Investment Climate Assessments (2005, 2008)

ICA 2005	ICA 2008
<ul style="list-style-type: none"><li>• To reduce informality</li><li>• To increase the flexibility of the labor market</li><li>• To improve the skills of the labor force</li><li>• To facilitate firms' technological progress</li></ul>	<ul style="list-style-type: none"><li>• To alleviate obstacles that constrain the growth of Turkish SMEs (mainly financial)</li><li>• To increase SMEs' competitiveness by enhancing their ability to adapt and use knowledge</li><li>• To further reform and strengthen the regulatory capacity of the government</li></ul>



# Some changes from 2005 to 2008

<b>Obstacles perceived as “severe” or “very severe” by the firms</b>	<b>2005</b>	<b>2008</b>
Tax rates	81 %	50 %
Tax administration	59 %	19 %
Access to finance	47 %	26 %
Inadequacy of the workforce	33 %	9 %
Labor regulations	46 %	8 %
Informal Sector	32 %	15 %
<b>Regulatory Framework</b>	<b>2005</b>	<b>2008</b>
Time to register a business	13 steps	6 steps
Time to acquire an operating license	66 days	62 days
Time required to obtain import license	12 days	18 days
Time required for clearance of customs for imports	7 days	10 days
% of management time spent dealing with government	9 %	27 %
<b>Developments in ICT</b>	<b>2005</b>	<b>2008</b>
Usage of internet and e-mail by firms	75 %	89 %

## Key Policy Areas and Recommendations – ICA 2005 and 2008

ICA 2005	Key Policy Recommendations
<b>Regulatory environment</b>	<ul style="list-style-type: none"> <li>• Streamline of business entry and exit</li> <li>• Reform of taxation</li> <li>• Streamline of public institutions involved in customs procedures</li> </ul>
<b>Labor market and skills</b>	<ul style="list-style-type: none"> <li>• Increase flexibility of labor market regulations</li> <li>• Reform education and training system</li> </ul>

ICA 2008	Key Policy Recommendations
<b>Regulatory environment</b>	<ul style="list-style-type: none"> <li>• Give Development Agencies (DAs) more responsibilities: <i>DAs can act as “one-window” shops:</i> They can,               <ol style="list-style-type: none"> <li>1) Perform facilitator role between issuing agencies and firms</li> <li>2) Act as an information point for businesses</li> </ol> </li> <li>• Continue implementation of Regulatory Impact Analysis (RIA)</li> </ul>
<b>Labor market and skills</b>	<ul style="list-style-type: none"> <li>• Improve coordination between employment and training programs</li> <li>• Improve Vocational Education and Training Councils</li> </ul>

## Key Policy Areas and Recommendations – ICA 2005 and 2008

ICA 2005	Key Policy Recommendations
<b>Innovation, technology adoption and ICT</b>	<ul style="list-style-type: none"> <li>• Reform of IPR legislation and alignment with the EU</li> <li>• Reform of the telecommunications sector</li> <li>• Legal and institutional reform of the National Innovation System</li> </ul>
<b>Access to finance and corporate governance</b>	<ul style="list-style-type: none"> <li>• Enhance legal and institutional framework for corporate governance</li> <li>• Strengthen financial reporting and credit information on firms</li> </ul>

ICA 2008	Key Policy Recommendations
<b>Innovation, technology adoption and ICT</b>	<ul style="list-style-type: none"> <li>• Tax exemptions and innovation expenditure discount for R&amp;D personnel; increase the share of R&amp;D expenditure</li> <li>• Raise the number of full time researchers</li> </ul>
<b>Access to finance and corporate governance</b>	<ul style="list-style-type: none"> <li>• Make new Credit Guarantee Fund scheme more active</li> <li>• Encourage expansion of coverage of existing credit bureaus</li> <li>• Enhance ability of banks to assess the creditworthiness of SMEs</li> </ul>

## Key Policy Areas and Recommendations – ICA 2005 and 2008

ICA 2005	Key Policy Recommendations
<b>Tax rates and informality</b>	<ul style="list-style-type: none"> <li>• Enhance independent financial auditing</li> <li>• Decrease tax burden on labor</li> <li>• Spread tax burdens to all firms and ensure enforcement</li> <li>• Develop strategy and action plan for strengthening accounting and auditing</li> </ul>
ICA 2008	Key Policy Recommendations
<b>Tax rates and informality</b>	<ul style="list-style-type: none"> <li>• Increase domestic employment</li> <li>• Reduce bureaucracy</li> <li>• Enhance efficient inspection, audit and employee registration controls, as well as labor cost reductions</li> <li>• Provide citizens with a secured and efficient online system to file taxes</li> <li>• Amendments to the Personal and Corporate Income Tax Codes</li> </ul>

# Conclusions / takeaways

- Turkey could grow fast after 2001, and this was thanks to the reform process
  - reforms paved the way for transformation and global economic integration
- When reforms slow down, international rankings do not stay the same; others reform and pass you
- Continuous reform is key to maintaining an attractive business environment

