tepav

Economic Policy Research Foundation of Turkey

Notes on Turkish transformation experience and the role of Chambers in the PSD agenda

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What is TEPAV?

- The Economic Policy Research Foundation of Turkey
  - ➔ A private, nonpartisan, nonprofit think tank devoted to independent research and project implementation
- Established in 2004, with the support of the Union of Chambers and Commodity Exchanges of Turkey
  - ➔ Funding sources increasingly diversified; now only 40 % through TOBB, rest from multilateral agencies and private firms
- Three major disciplines
  - ➔ Economic policy, foreign policy and governance
- Three interrelated themes
  - ➔ Competitiveness
  - ➔ Regional development
  - ➔ Regional economic integration

TEPAV's comparative advantage

- Knowledge production
  - A strong in-house research capacity
  - Network with academics and experts
  - Strong ties with the international organizations (The World Bank, OECD, EU Commission, Islamic Development Bank)
- Knowledge distribution
  - Close contact with TOBB's grassroots organizations (365 chambers all around Turkey)
  - Network with the public administration (Former and prominent technocrats among TEPAV staff)
  - Strong impact on the media (daily columns, press releases and briefings)
- Strong and diversified financial resources to sustain activities

Turkey's economic transformation and private sector growth

	1980	2001	2008
GDP (billion $)	70	509	700
Per capita GDP (USD)	1,500	2,906	9,000
Number of enterprises	90,000	723,503	1,170,248
Exports (USD billion)	3	31	132
Exports per worker (USD)	65	1,456	6,229
Industry share in exports	10%	92%	92%
Number of exporters	1,000	25,000	47,000
Tourism revenue (billion $)	0,3	8	21
Ranking in the world (in terms of GDP)	25th	21st	17th

Source: WDI, EIU, TÜİK, SSK, TİM

It is a process of total transformation:

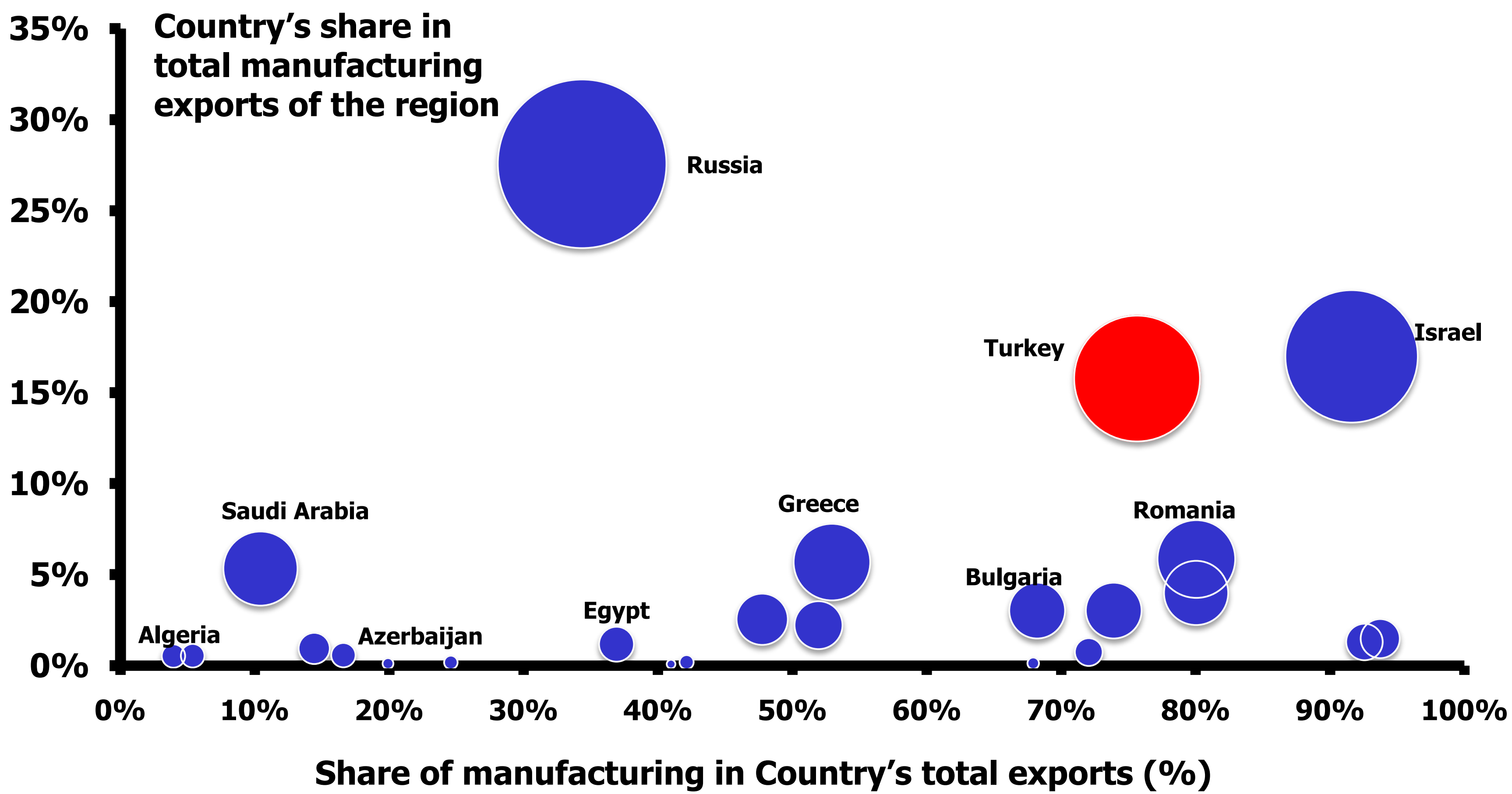
- **Mass urbanization**
  - → Migration from rural to urban areas
  - → Reversal of 70 to 30 percent distribution; integration is the main challenge
- **Proliferation of industrial activity in Anatolia**
  - → New emerging centers: Gaziantep, Denizli, Konya, Kayseri, Kahramanmaraş
  - → 250+ organized industrial zones spreading throughout Anatolia
- **Transformation in services, especially retail sector**
  - → Shopping malls and new urban life
- **An unintended consequence: Political transformation**

It is a process of total transformation: "Still under construction"

- Transformation process in Turkey is yet to be completed
  - ➔ It should be seen as a process where Turkey has started to come to terms with her past history and her geography.
  - ➔ There is a long list of domestic items that are under intense discussion.
    - Kurdish issue, civil-military relations, headscarf, judiciary etc.
- EU process is important within this context for a smoother transformation.
- It is not shift of axis but being aware of your geography due to growing business interests.

Turkey in her region:
Rapid growth in manufacturing after mid-90's

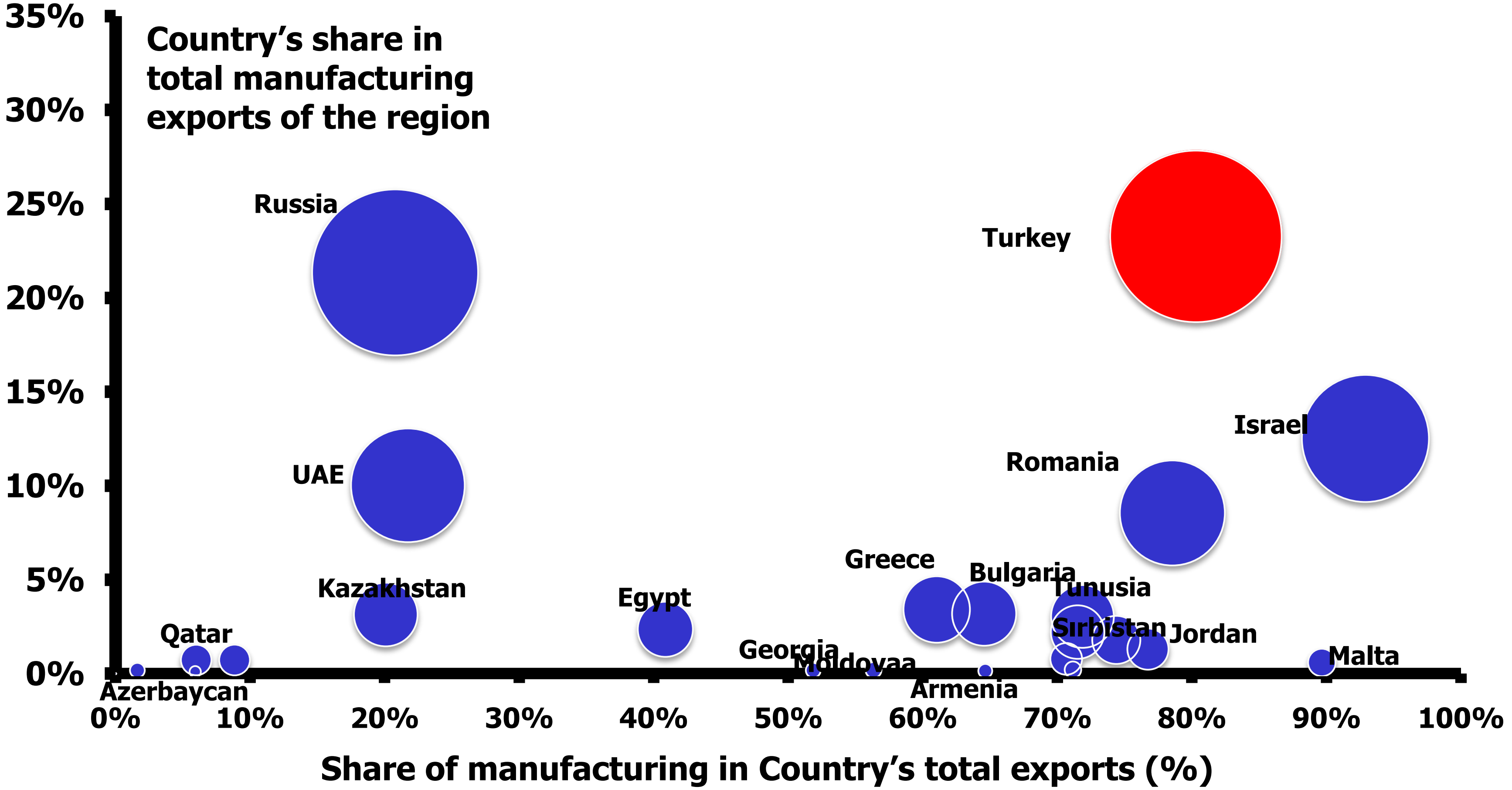
Share in exports of the region and level of industrialization (1996)



Source: UN COMTRADE, TEPAV Calculations

Today Turkey is the largest manufacturer in the region

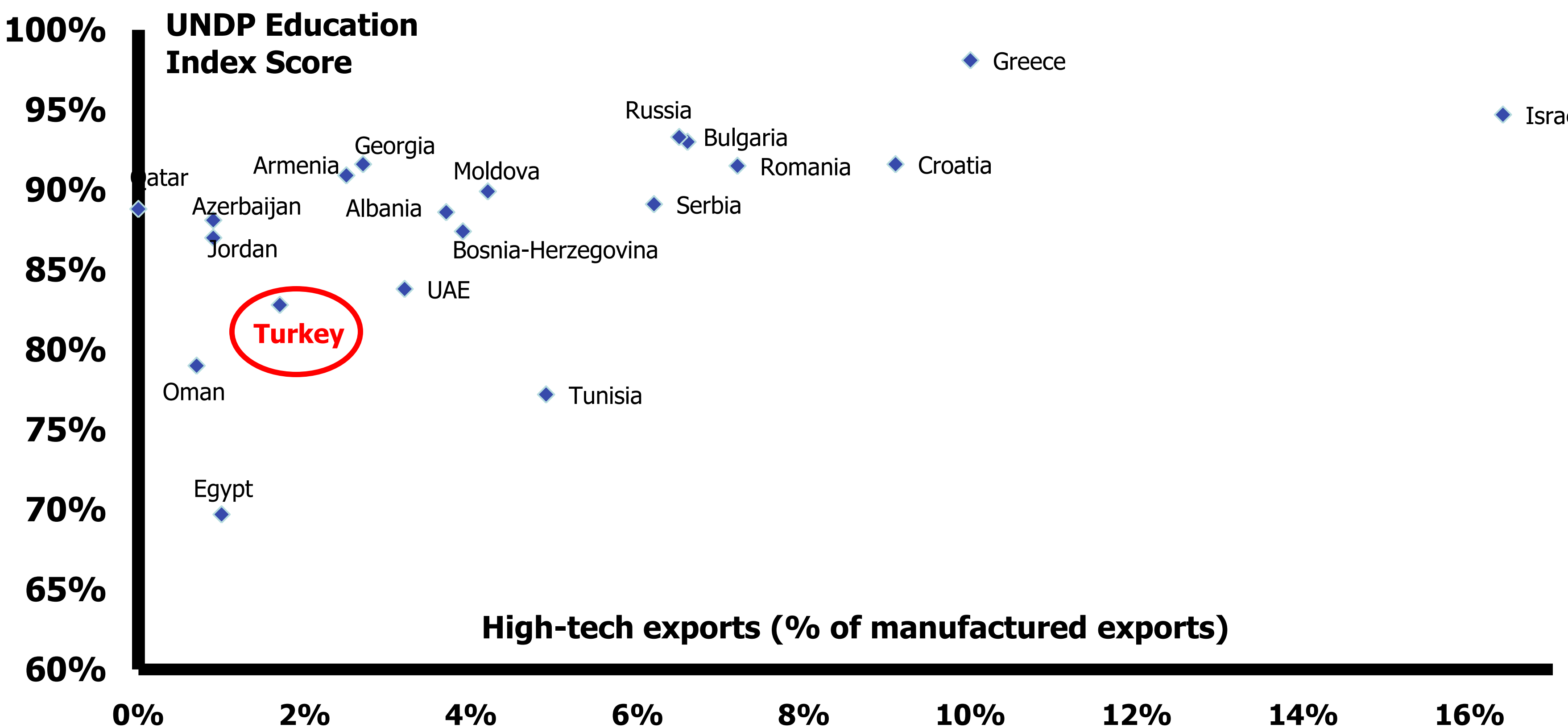
Share in exports of the region and level of industrialization (2008)



Source: UN COMTRADE, TEPAV Calculations

Turkey has become an industrial giant, but it still needs a boost in human capital

Level of education and high technology exports (2008)

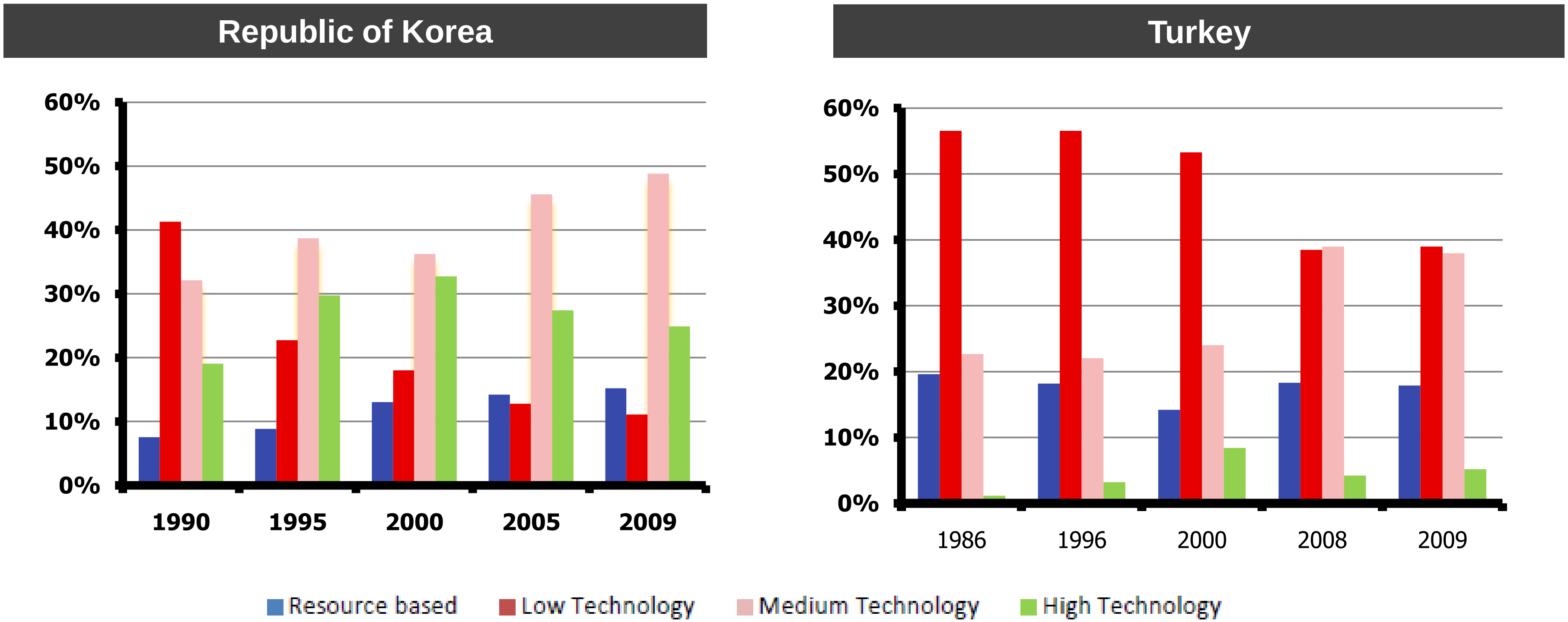


*UNDP Education Index is based on the adult literacy rate and the combined gross enrollment ratio for primary, secondary and tertiary schools.

Sources: HDR, WDI. UNDP, and TEPAV Calculations

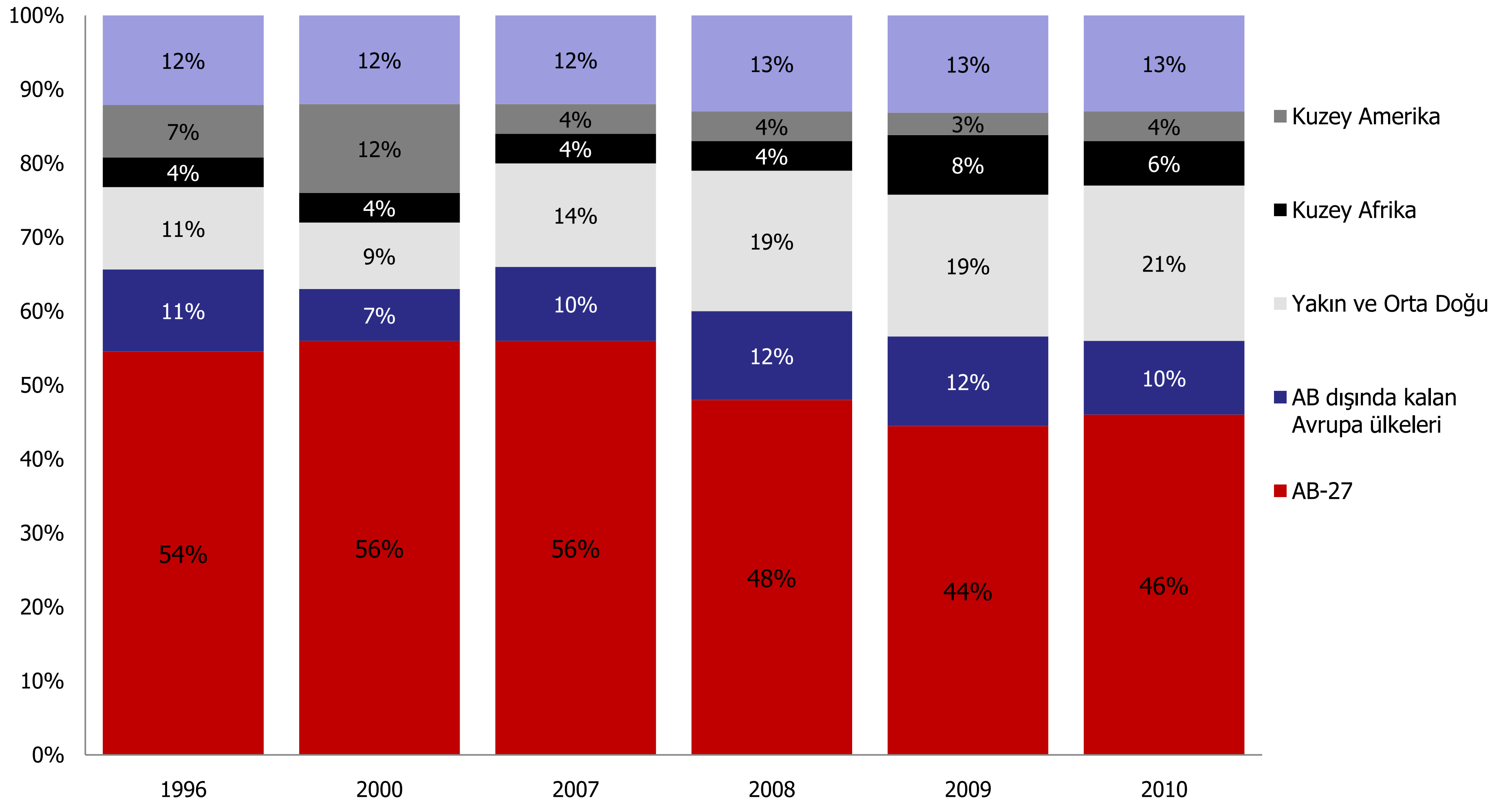
When it comes to high-tech, Turkey has a long way to go

Technological composition of exports of Korea and Turkey (1990-2009)



Source: UN COMTRADE database, TEPAV calculations
(Based on UNIDO classification of products by level of technology)

Diversification in our export markets; declining share of the EU

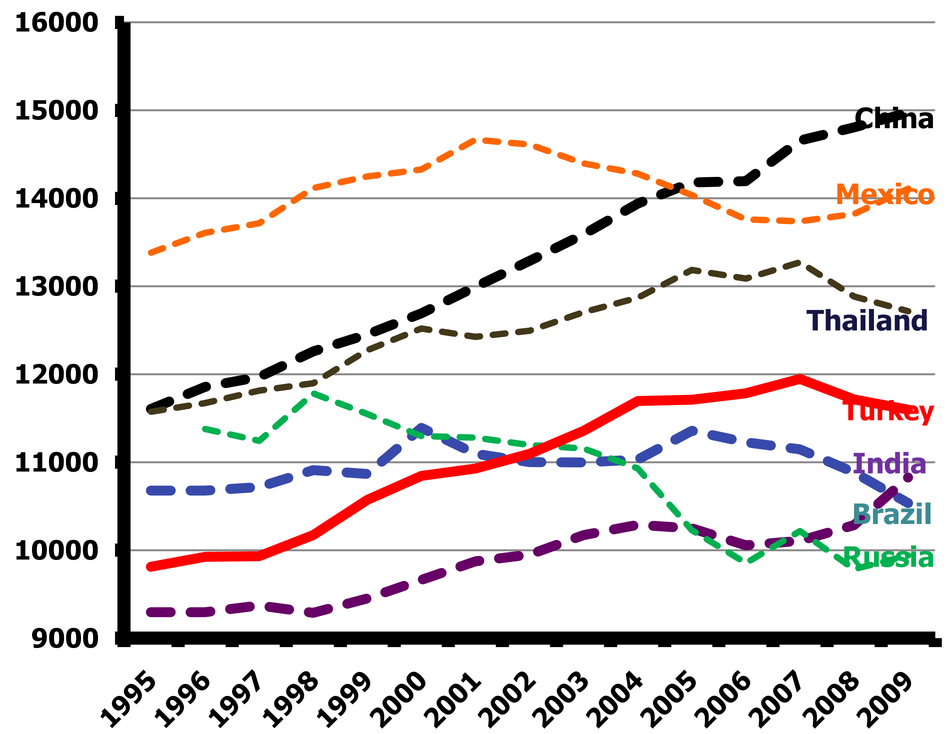


Kaynak: COMTRADE, TEPAV hesaplamaları

Decreasing share of EU implies low sophistication for Turkish exports…

- Transforming the consumption patterns in the Middle East became an important competitiveness issue for Turkish manufacturing industry

Export Sophistication Index (EXPY) Turkey and selected countries (1995-2009)



Kaynak: COMTRADE, TEPAV hesaplamaları

Rediscovery of neighbors:

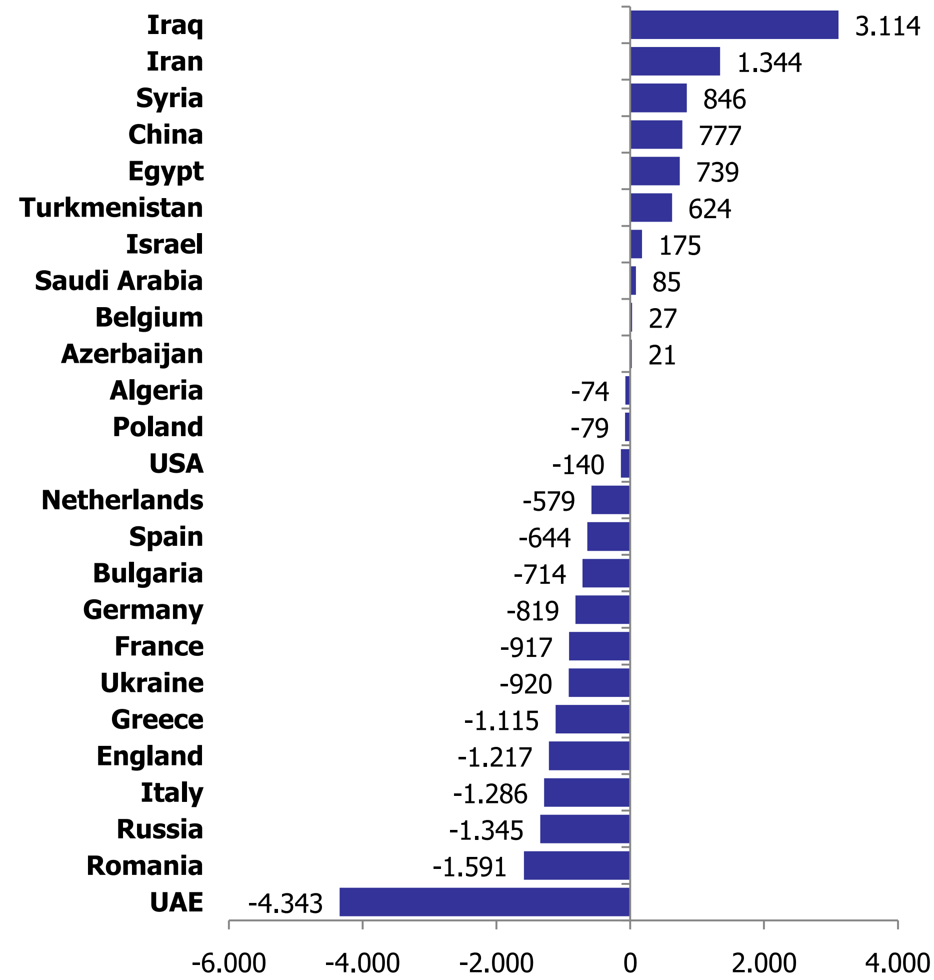
Economic impact of political rapprochement

- In this neighborhood, entry to domestic market requires political permission first and foremost.
- Improving political relations with neighbors, 2000-2010
  - → Iraq: establishing economic and political ties
  - → EU dimension: Greece and Bulgaria
  - → Russia: bilateral rapprochement sustained by energy cooperation
  - → Syria: better understanding on diversified issues until recently
  - → Iran: nuclear diplomacy and rising economic relations
  - → Armenia: Still under construction
- Rising importance of the neighborhood in period of crisis

Rising importance of neighborhood

- During the crisis period export to three south-east neighbours exceeded 5,3 billion $

Change in exports (12-m. cum.) between Oct-08 and Apr-11, mil. $



Extraordinary crisis performance
A stress test for our institutional infrastructure

Fastest Contracting Economies in 2009		Fastest Growing Economies in 2010	
Finland	-8.3%	Singapore	14.5%
Russia	-7.9%	Taiwan	10.8%
Hungary	-6.7%	China	10.3%
Mexico	-6.5%	Argentina	9.1%
Japan	-6.3%	**Turkey**	**8.9%**
Denmark	-5.2%	India	8.6%
Sweeden	-5.1%	Thailand	7.8%
Italy	-5.1%	Brazil	7.5%
England	-5.0%	Malasia	7.2%
Turkey	**-4.7%**	Hong Kong	6.9%

Chambers role in economic transformation?

- Support for reforms
  - ➔ TOBB's contribution to the reform coalition in the post 2001 period; recent commercial code case.
- Continous needs assessment
  - ➔ Identfying bottlenecks to private sector growth at local and national level – "content" of reforms
- Foreign economic relations
  - ➔ DEIK – helping SMEs open up to global markets
- New roles
  - ➔ Vocational training, tackling the skills mismatch
  - ➔ European Union process – EU-funded projects

Features of our chamber system

- Institutional
  - Service delivery based on rules
- Grassroots
  - Organzied all across the country
- Democratic
  - Competitive elections at several levels
- Opinion leader
  - Local and national
  - TEPAV and TOBB University

Synergy between chambers and think-tank activities

- Chambers are the perfect source of economic information

Academics crave for such quantitative and qualitative information

- Challenge is to collect, organize and analyze information
- Then you have to turn the analyses into viable policy alternatives

This is the comparative advantage of a think-tank; not a research department within a chamber

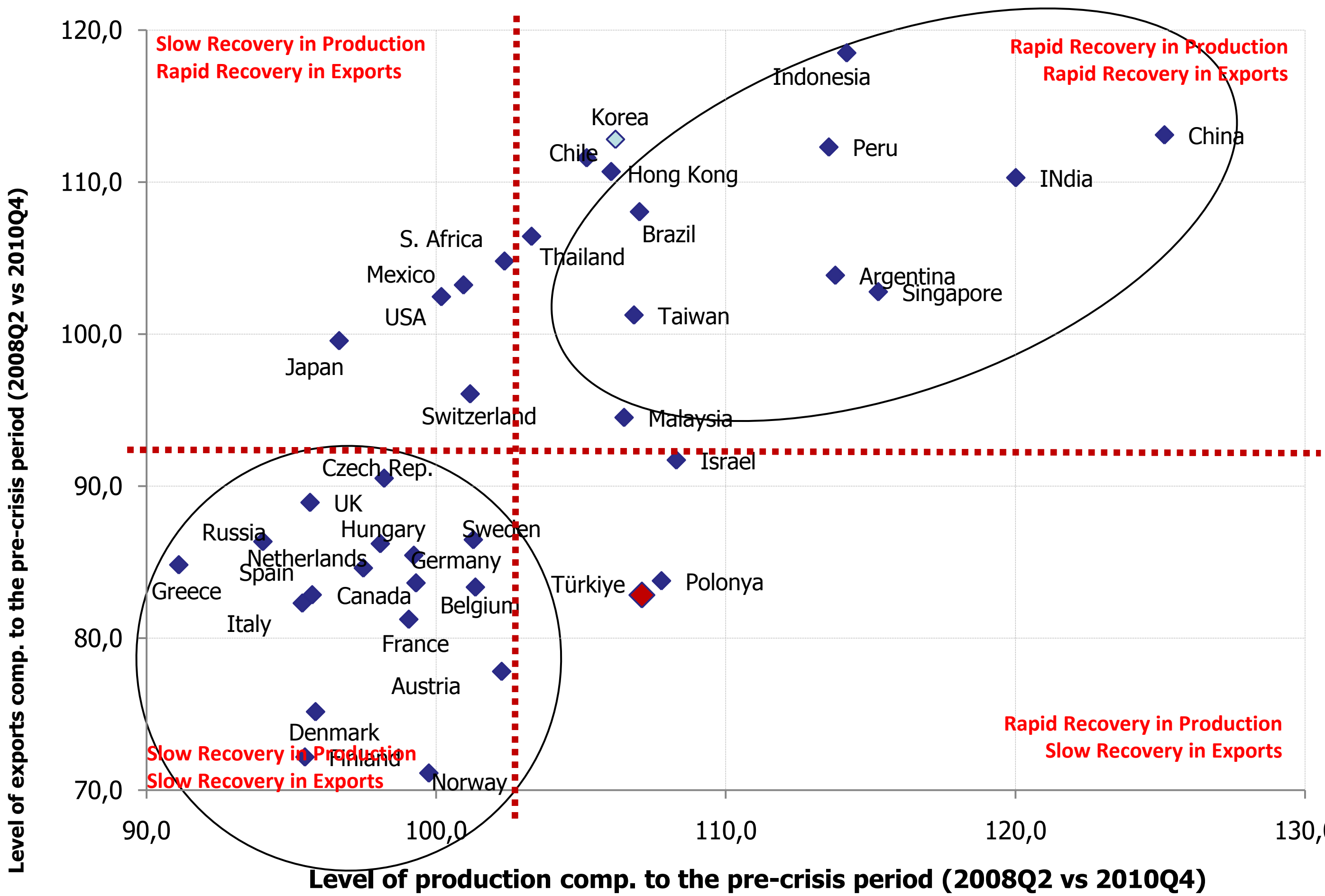
- Meanwhile, it is critical to build technical credibility and to gain confidence of the decision makers

An independent think-tank, which can talk to all sides of the policy debates

TOBB and TEPAV case…

- First experience: Improving the investment climate - 2005
  - ➔ A joint study (investment climate assessment with the World Bank team); TOBB as co-funder
- Deepening the competitiveness agenda: 2006-2011
  - ➔ Industrial Policy Ad-Hoc Comission 2006
  - ➔ Industrial Strategy Document for Ministry of Industry and Trade – 2008
  - ➔ Competitiveness Council Secretariat – 2007-2009
  - ➔ Vocational Training Project – 2010-2011
- Regional competitiveness: 2006-2011
  - ➔ TEPAV as a "knowledge partner" for Regional Development Agencies, of which local chambers are key stakeholders
- Regional economic integration: 2005-2011
  - ➔ TEPAV as a "knowledge and operational partner for Turkish International Aid Agency and Ministry of Foreign Affairs; several projects in the region
  - ➔ TEPAV as a "knowledge partner" for Islamic Development Bank
- Constitution Debates: 2008 and 2011

We should be aware of the new world after the global crisis



Sources: TEPAV calculations, WTO, Eurostat, EIU, BEA, Statistics Canada, Bank of Israel, Banco de Brasil, tradingeconomics.com

Conclusions

- Turkish private sector can play a significant role in the region’s transformation process
  - By the way transformation can be smoother and shorter than our case
  - Partnerships could pave the way for PSD in the region.
- The Chambers can play an important role in PSD
  - We have to think of a more systematic way for working together
- What can be done?
  - Chamber Academy is a good starting point
  - Regional cooperation networks among Chambers as business support organizations are important for regional integration of our economies
  - We have to learn more about our priorities