

tepaV

Economic Policy Research Foundation of Turkey

Salient features of Turkey's journey: What is there to learn?

Güven Sak

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Framework

- What is TEPAV?
 - Regional integration perspective
- Experience sharing
 - "Experience is a collection of past mistakes..."
- What has Turkey achieved in terms of structural transformation?
 - Role of the EU

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 in the West Bank: Jenin Industrial Park

- TEPAV executes and coordinates the activities of the Ankara Forum on behalf of TOBB
 - Technical reports, network coordination and negotiations
- A institutional dialogue, problem solving and confidence building mechanism among Palestinian, Israeli and Turkish business communities.
- An industrial estate is under construction in Jenin.
 - Opportunity for Turkish businesses to move parts of their value chains to lower cost locations.
 - More opportunities for the growing Palestinian economy



TEPAV in Yemen: Hodeidah Industrial Park

- An investment hub in West Yemen to serve East African markets...
- A joint project with the Islamic Development Bank
- A pilot for a further cooperation in other Muslim countries
- Next pilot: Mauritania and Benin



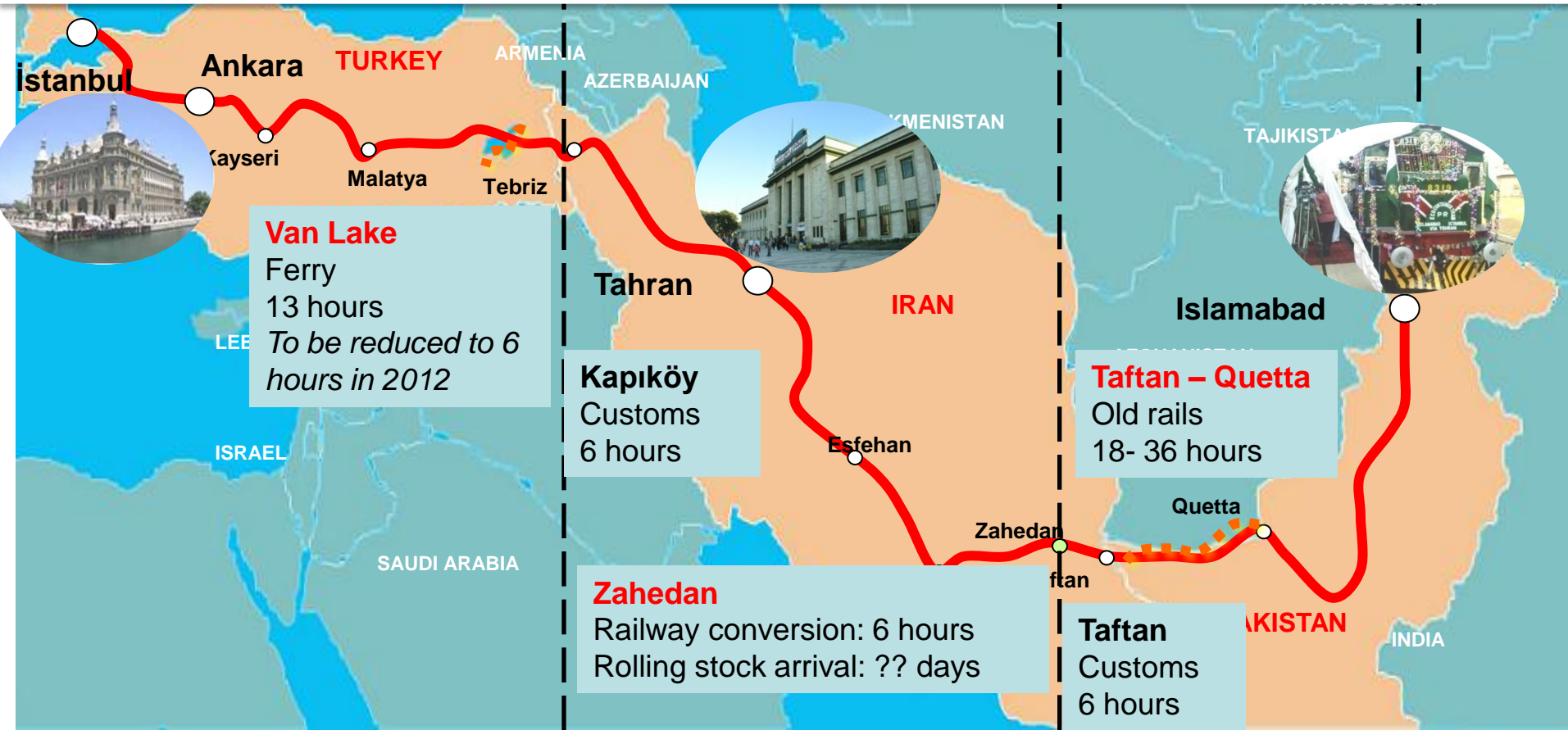
TEPAV at the Turkish – Armenian border: Ani Bridge

- Tourism clustering around new possible gates: special zone in Ani
- Another gate opening to Georgia: Cildir Aktas
- Cross-border cooperation
- Regional development perspective for Turkey



Istanbul – Islamabad Railway

- A product of **Istanbul Forum** between Pakistan, Afghanistan and Turkey
- A concrete project targeted at physical and institutional bottlenecks
- A direct link to Pakistan & India
- A model of PPP that may involve IPOs for financing

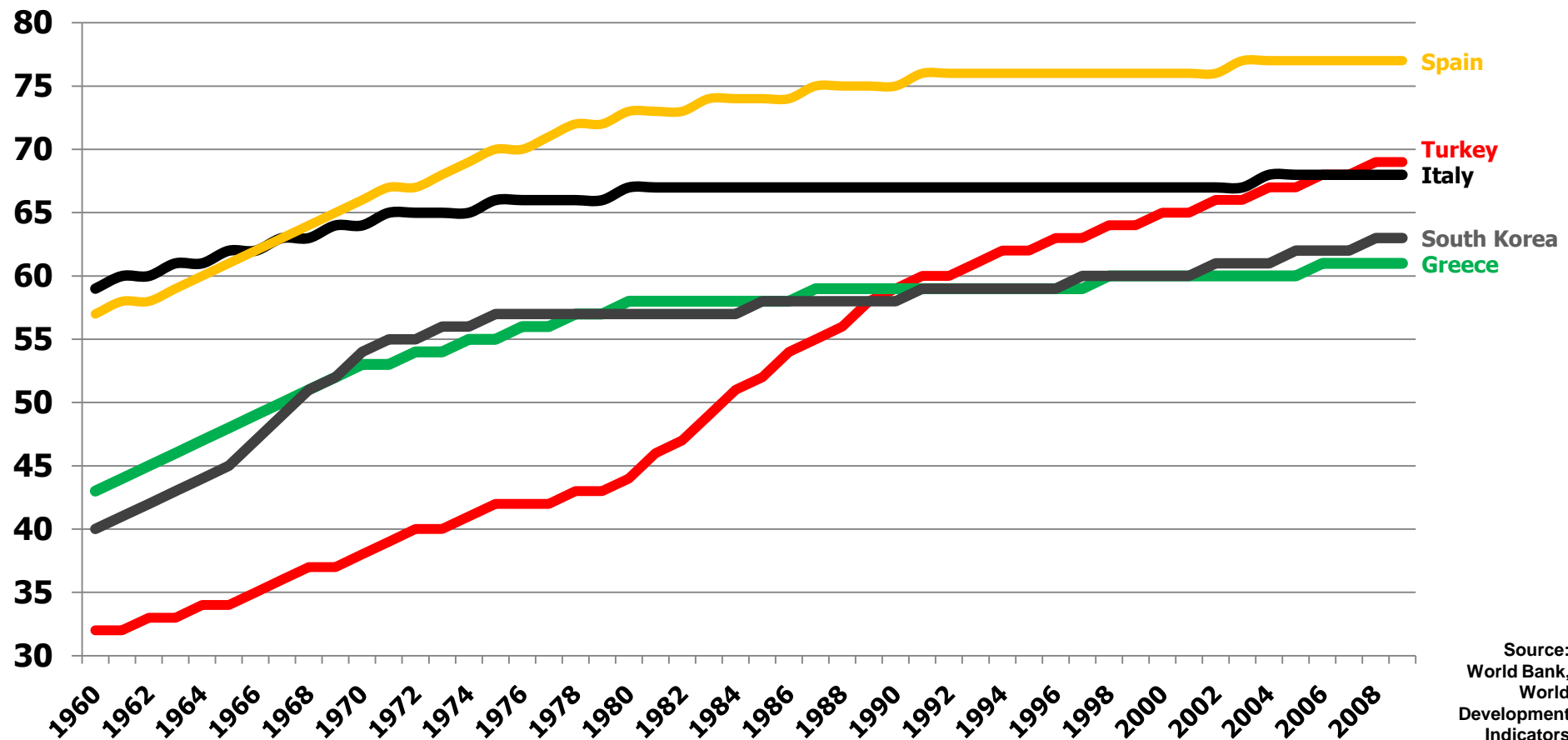


All started with the policy reforms the 1980s

- Spread of industry
 - Newly industrialized cities: Changing face of the periphery
- Internal migration
 - Social transformation: Periphery walked to the center
- Democratic traditions
 - Ballot box as the source of transformation
- Unintended consequence
 - Political transformation at the center
- Role of the EU process
 - Transformation by consent
 - Look what we have been talking about: Cyprus Issue, Kurdish question, Armenian Question
 - Economic aspects – from low to medium tech thanks to EU FDI

Rapid urbanization puts pressure on labor market and skill needs

Urban population as a percentage of the total population in Turkey, Spain, Italy, Greece and South Korea, (%), 1960-2009



What has Turkey done in terms of policy reform so far?

■ 1980 policy reforms

- Price reforms
- Financial liberalization
- Trade liberalization
- Convertibility of the Turkish lira

■ 2001 policy reforms

- Banking reform—prudence etc.
- Privatization
- Independent authorities
- Fiscal and monetary discipline

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**First
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reforms**

Missing links...

- Public administration reform
- Tax reform
- Operational problems of the legal system
- Education reform-curriculum
- Labor market rigidities
- Health reform

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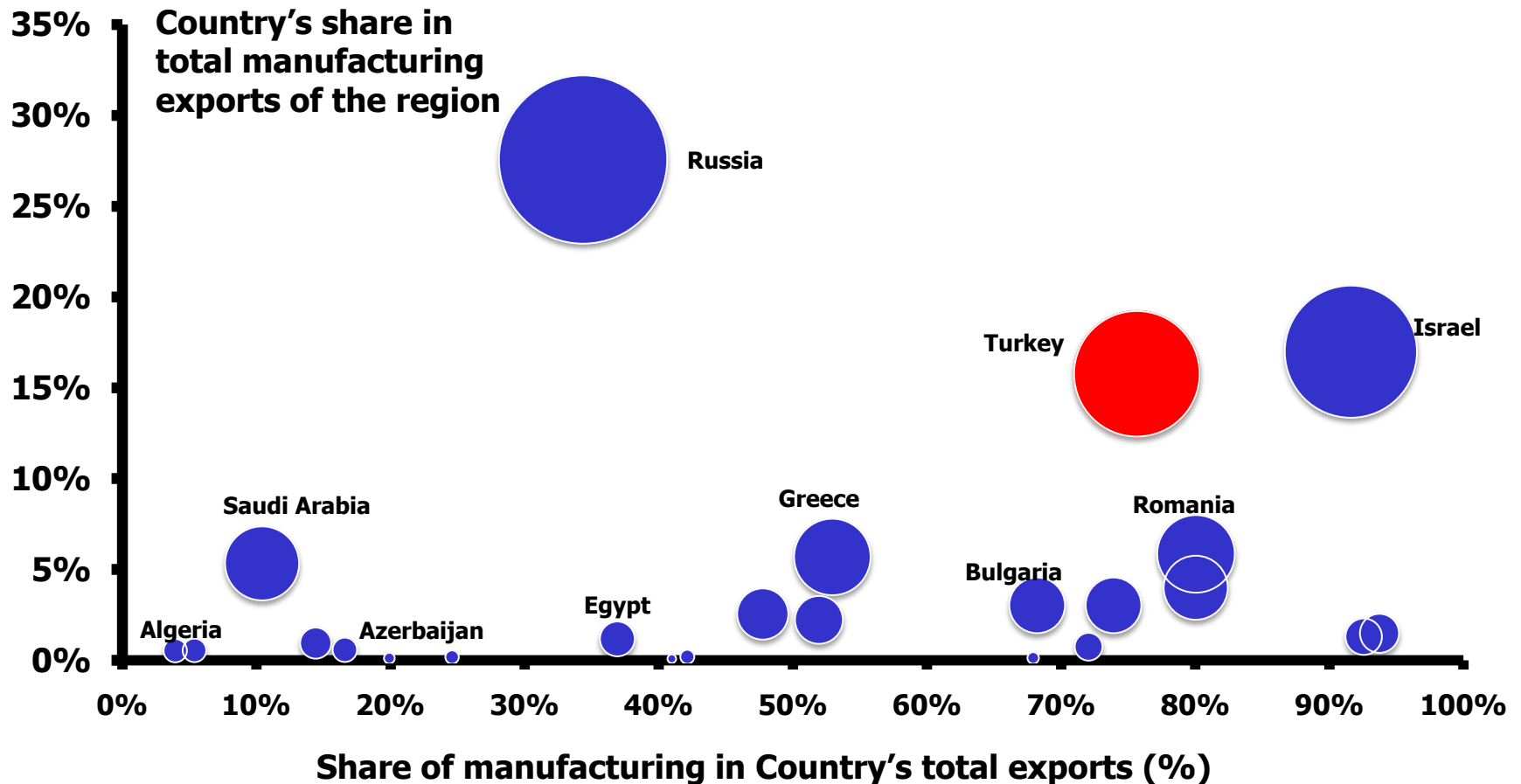
**Second
generation
reforms**

An overview of the recent progress of Turkish economy

	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

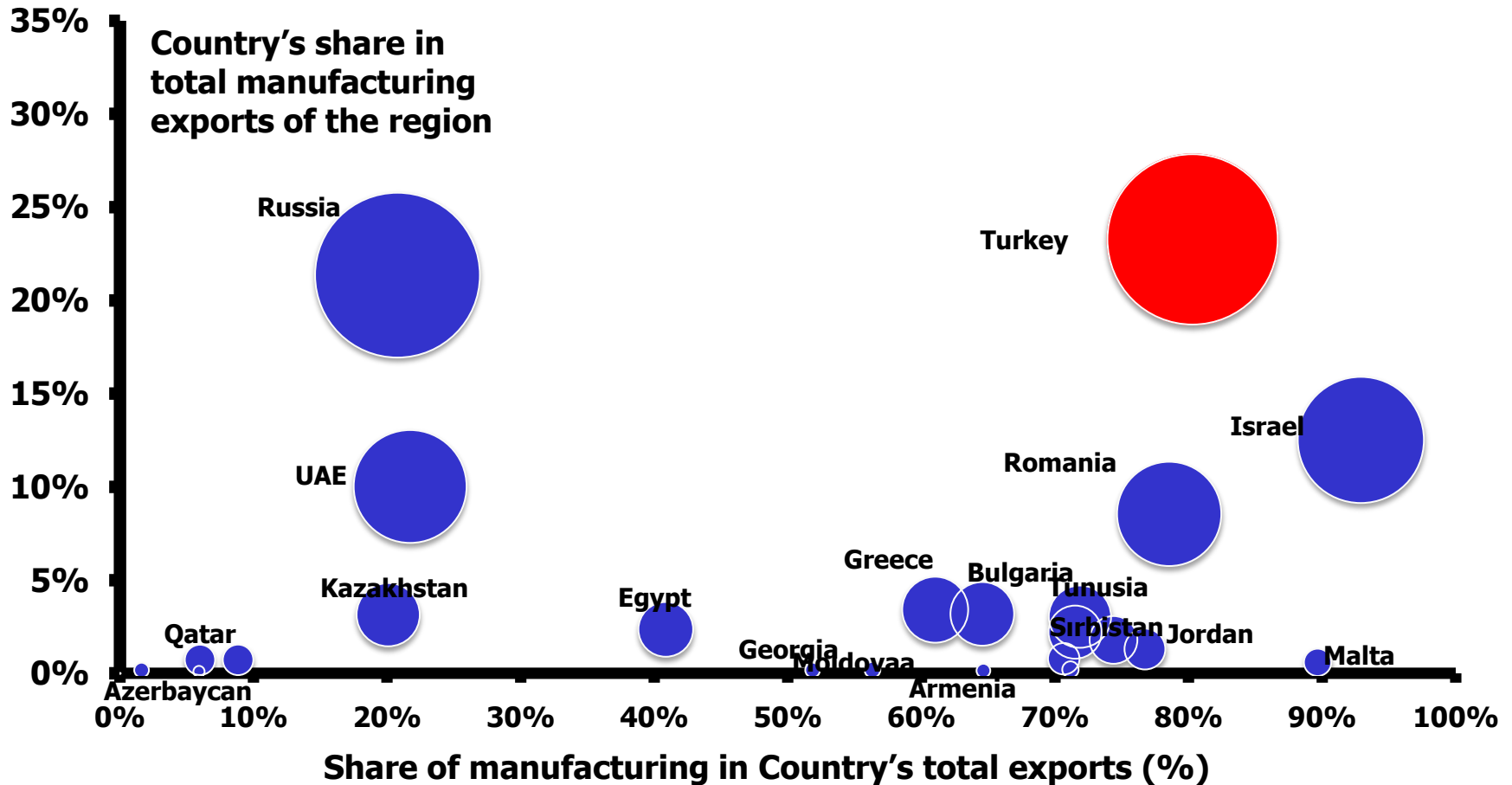
Turkey in her region: Rapid growth in manufacturing after mid-90's

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



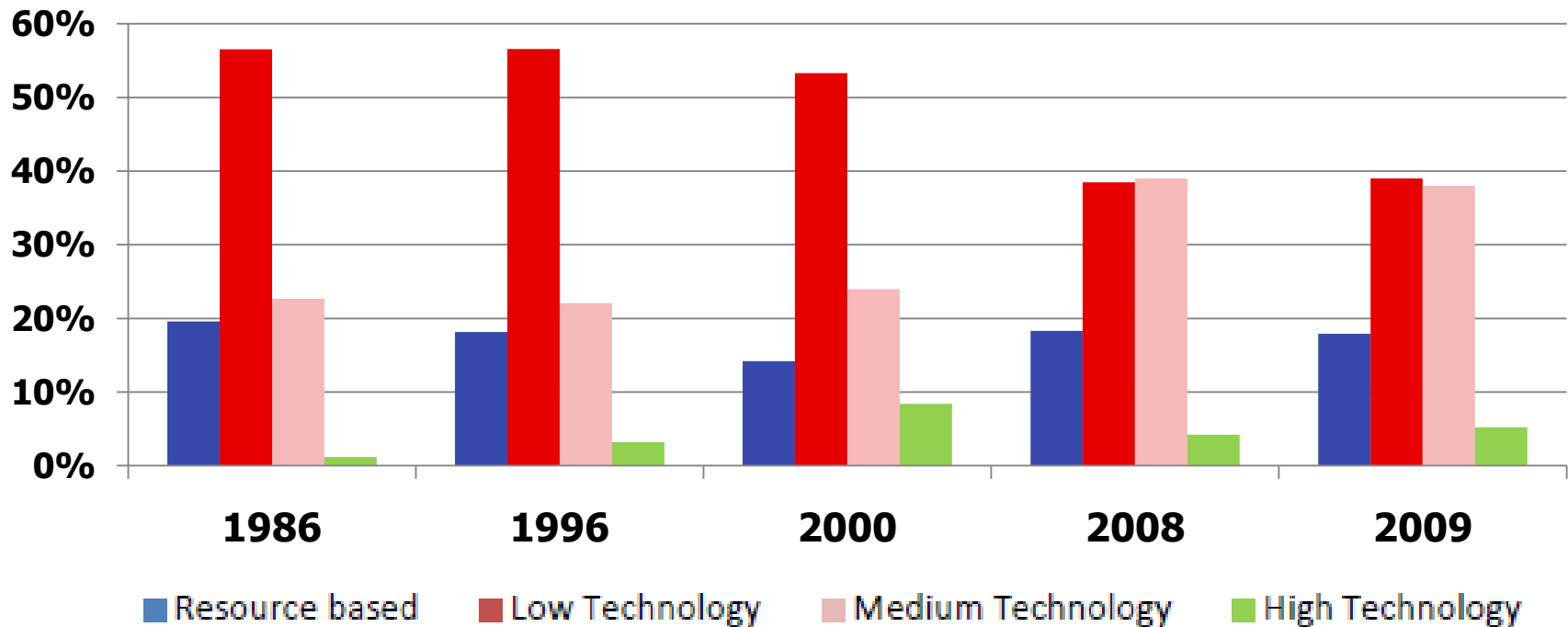
Today Turkey is the largest manufacturer in the region

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

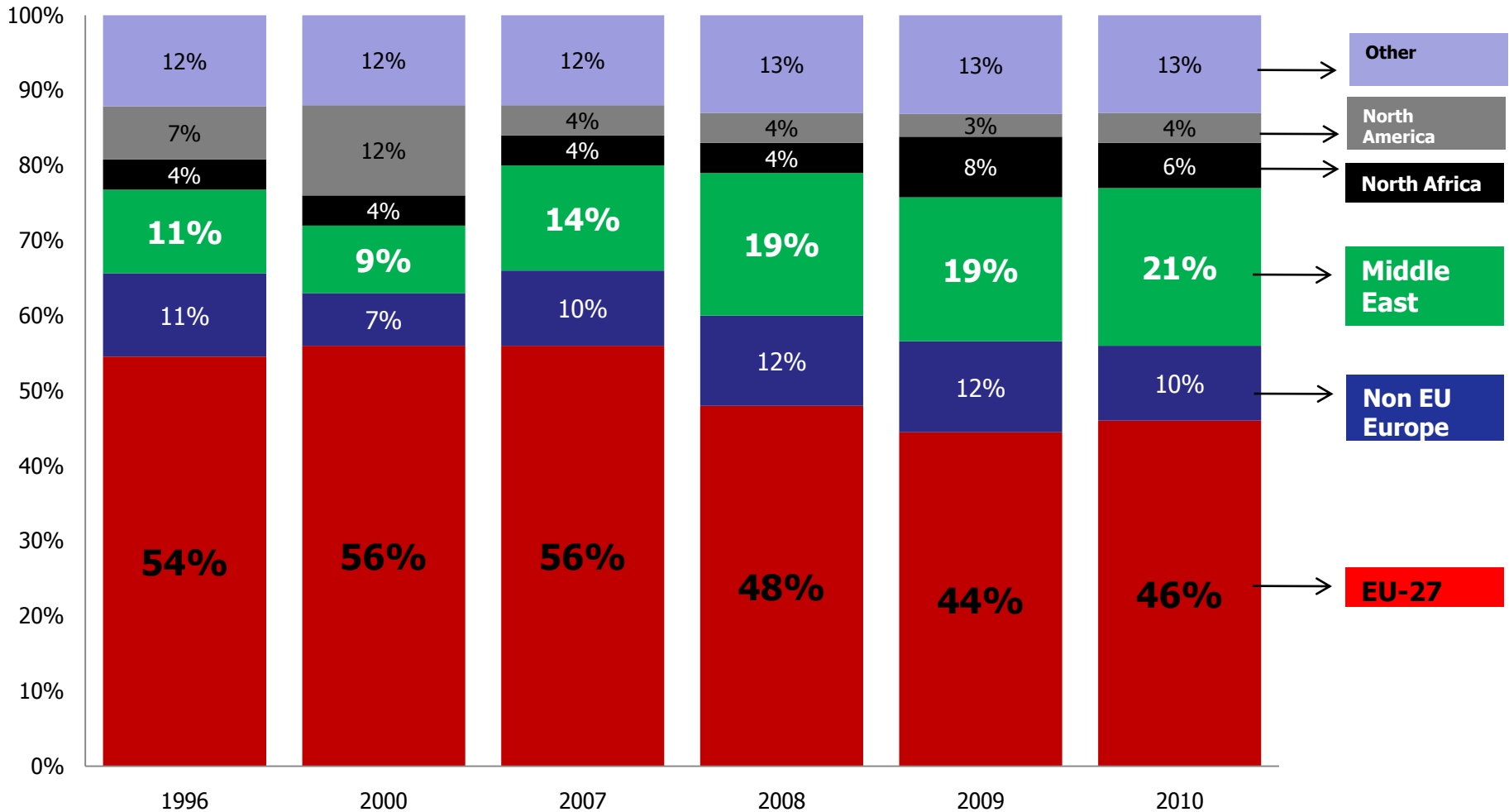


Technological transformation: declining low-tech, rising mid-tech

Technological composition of Turkey's exports 1990-2009

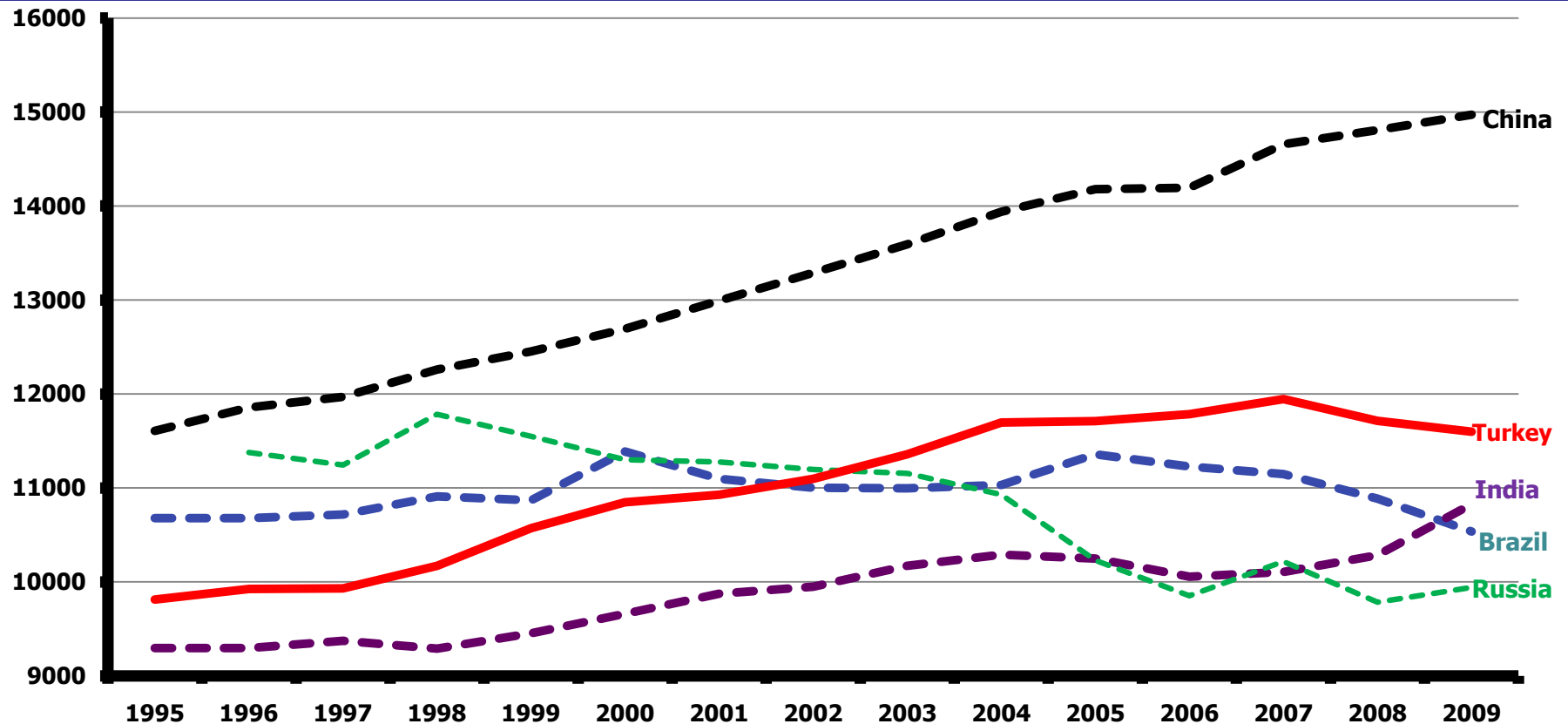


Market diversification for export markets; declining share of the EU, rising MENA



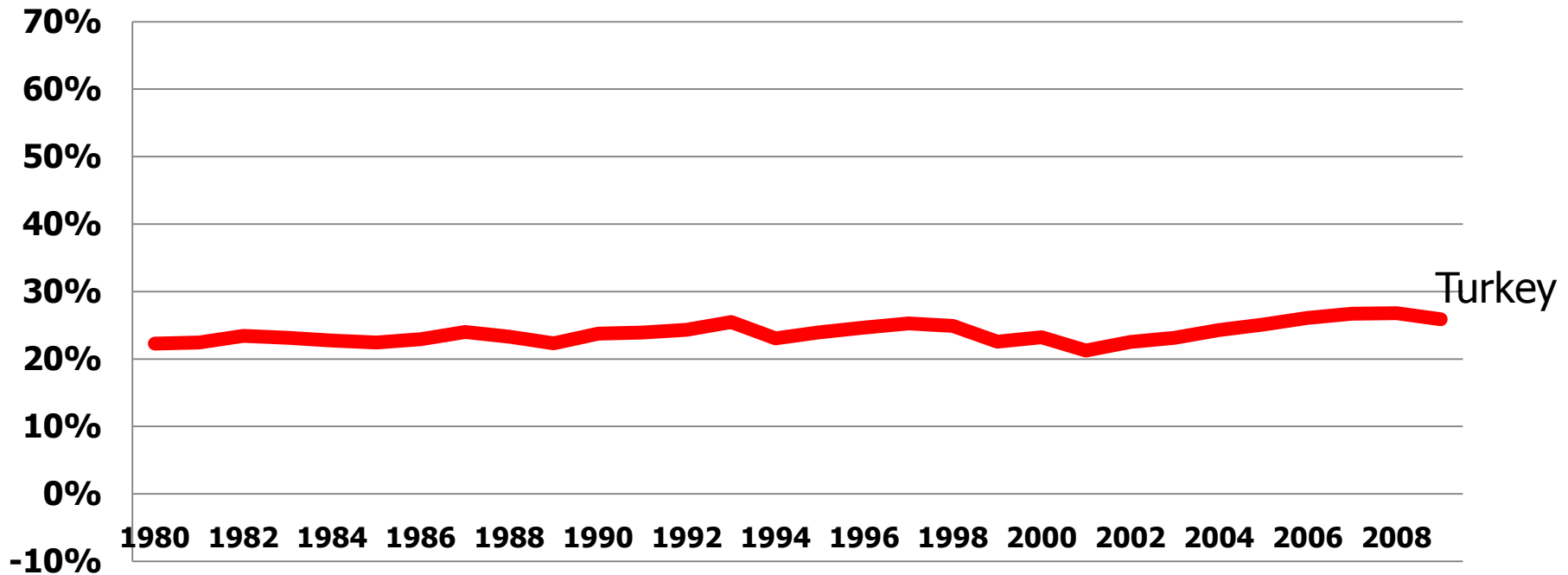
Decreasing share of EU implies low sophistication for Turkish exports...

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



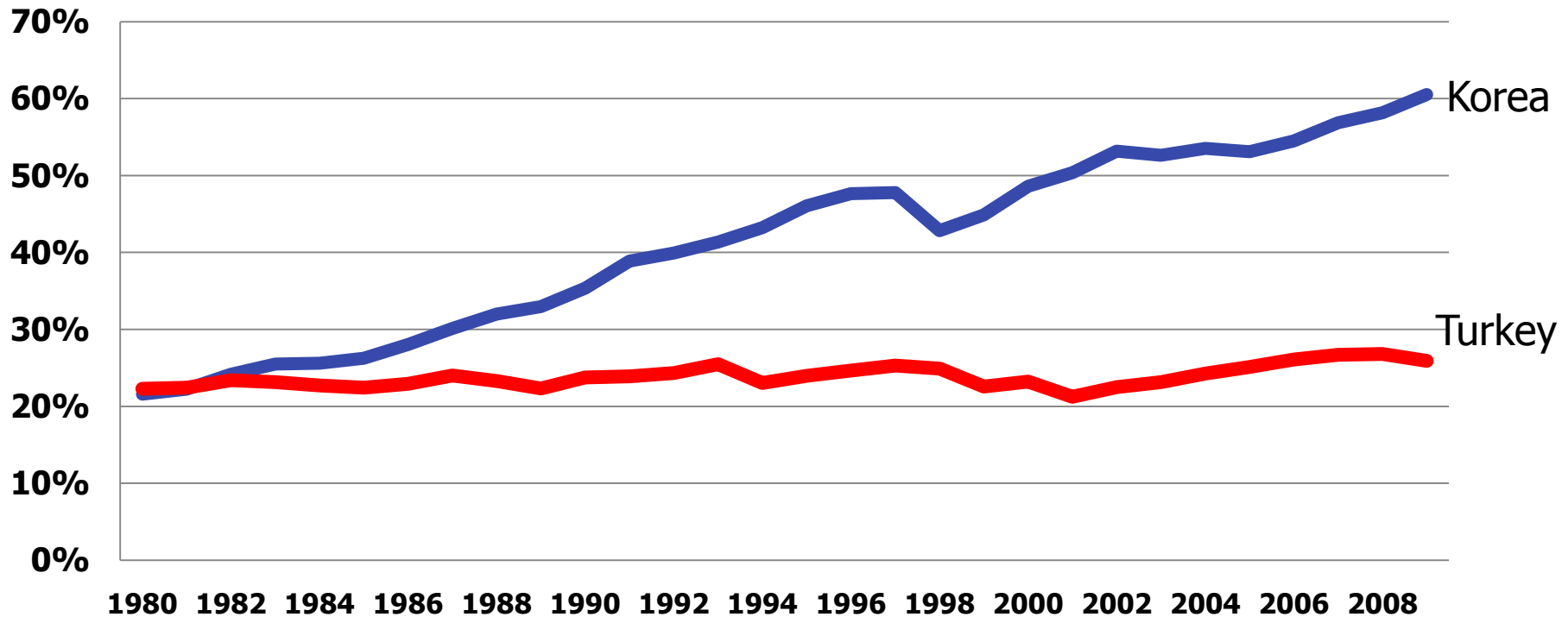
A very stable convergence performance! Structural change with no (relative) results?

GDP per capita in Turkey as percentage of GDP per capita in U.S., (PPP, 1975-2008)



Though non-convergence is not destiny. A coherent growth story is what Turkey needs...

GDP per capita in S.Korea and Turkey as a percentage of GDP per capita in U.S., (SAGP, 1975-2008)



Dual structure of the economy is a big problem

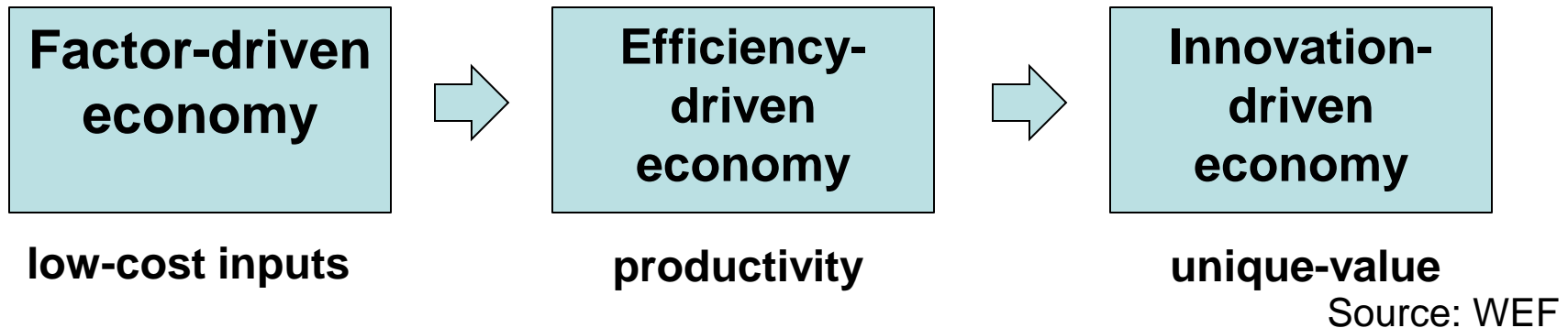
■ Registered (modern) firms

- Productivity levels: 62% of firms in USA
- Economies of scale; new technologies, quality products
- Spread over Anatolia; export oriented

■ Unregistered (traditional) firms

- Productivity levels: 25% of firms in USA
- Old technologies, low quality; domestic oriented
- Being unregistered provides a cost advantage of around 20%

Turkey's major risk: middle income trap...



- Where does Turkey stand?
 - Turkey was a transition economy from efficiency-driven to innovation-driven in 2009.
 - In 2010, WEF downgraded Turkey to efficiency-driven.
- Upgrade to an innovation-driven economy? Delayed reforms
 - Tax system, education, judiciary, public administration -- ecosystem
- Risk: no-reform political climate
 - The period ahead will be even less conducive for reforms: elections in 2011, 2012, 2013, 2014, 2015

Conclusions and takeaways...

- Turkey has a lot to offer for the policy debate in Arab countries
 - Lot of "experience" to share. So many mistakes.
- Role of the EU for Turkey's transformation was central
 - Political reforms – possible to have free discussion thanks to Copenhagen criteria
 - Economic reforms – EU FDI in Turkey, jump to medium technology thanks to European multinationals
- Easier for many Arab countries to attract capital by focusing on policy reforms. Turkey's experiment is a good case.
 - Harder for Turkey to do the jump. Because this time reforms are harder. (role of the EU?)